EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,177

Tuesday June 19 1990

D 8523A

SOUTH KOREA
Shipbuilding firmly back on course
Page 6

World News

EC delays trade accord over brutality in Bucharest

European Community foreign ministers have delayed approval of a trade and economic co-operation pact with Romania to show their distaste for the violent suppression of protest demonstrations in Bucharest last week.

The decision came as *Romania's parliament* voted for police action against continuing anti-government demonstrations in University Square, scene of last week's bloody clashes. Page 20; Repairing its image abroad, Page 3

Kaifu admits sale

Mr Toshiki Kaifu, the Japanese Prime Minister, admitted that one of his aides had sold shares only days after his Cabinet last year agreed a ban on all stock dealing by ministers and senior officials. Page 6

Kohl backs unity

Chancellor Kohl has given his first public backing to full political union of the two Germanys and all-German elections this year. Page 20

Iraq threatens Israel

President Saddam Hussein of Iraq has again threatened to mount an all-out attack on Israel if it struck against the Arab world. Page 6

Sri Lanka gets tough

The Sri Lankan Government said it will "annihilate" Tamil separatist guerrillas waging a week-old offensive against police and army bases in the north and east. Page 6

Bearings 'dumped'

The European Commission, after finding Thailand guilty of dumping ball bearings on the European market, announced a 6.7 per cent dumping duty to protect local manufacturers. Page 4.

Action on pollution

Japan announced a new policy on global warming, although an internal dispute left it unable to set a target figure for reducing carbon dioxide emissions. Page 20

Election victory

Bulgaria's former communists, reshaped to conform with eastern Europe's reforming trend, have clinched victory by achieving a parliamentary majority in the first free poll in more than four decades. Page 3

India-Pakistan talks

India and Pakistan set a July meeting to explore ways of easing cross-border tensions. Relations deteriorated rapidly since Moslems started a campaign to split Kashmir from the Indian Union. Page 2

Tipped to resign

The embattled Soviet Prime Minister, Mr Nikolai Ryzhkov, was named as a possible candidate for the job of Russian Communist party boss, renewing speculation that he may step down. Page 2

Gunman kills seven

A gunman who was apparently infuriated because his car had been repossessed went on the rampage in a Florida finance office, killing seven people before taking his own life.

Pilot defects

A Soviet pilot who flew a 12-seat passenger plane from Odessa to a beach on the Black Sea coast has asked the Turkish government for political asylum.

Hacker theft

A young foreign exchange executive broke into his bank's computer system and stole more than SM4m ($US1.48m) in Malaysia's biggest case ever of computer fraud.

2,500 evacuated

A cloud of fumes spewing from a chemical plant in the US forced at least 2,500 people to be evacuated from their homes in Pettis County, Missouri.

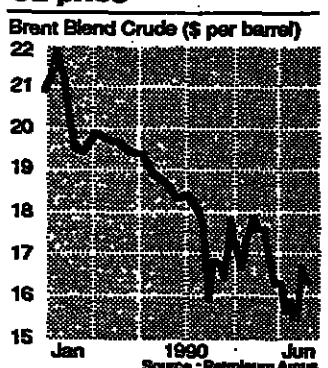
Business Summary

James Guerin ordered to pay $189m to Ferranti

MR JAMES GUERIN, the man at the centre of the arms contracts scandal which forced Ferranti to suspend its shares on the London Stock Exchange, was yesterday ordered by the High Court to pay back $189.9m to the company, after a judge labelled his written response to questions "contemptuous" and "illusory." Page 20

OIL: Prices fell in London and New York as Opec production continued at a high level. Brent oil prices for August closed at $16.025, down 30 cents. Commodities, Page 32

Oil price



Source: Petroleum Argus

VOLVO, Swedish automotive group, is seeking to buy out the Dutch Government's majority share in Volvo Car BV, its associate company. Page 21

SOUTH KOREAN's economy will grow by 9 per cent in real terms in 1990, from a growth rate of 6.7 per cent in 1989, *Korea Development Institute* predicts. Page 6

EUROPEAN COMMUNITY is insisting that all services be covered by trade-liberalising General Agreement on Trade in Services. Page 4

LLOYDS BANK of the UK is to sell its operations in Portugal to Spain's Banco Bilbao Vizcaya. Page 21

BOUYGUES, Europe's biggest contracting group, is buying 85 per cent of Losinger, Switzerland's second biggest construction company. Page 23

PARGESA group of companies is putting up for sale its collective 62 per cent holding in Henry Ansbacher, London merchant bank. Page 21

BAA, formerly British Airports Authority, new chief executive is Sir John Egan, present chairman of Jaguar, UK luxury car maker. Page 21; Lex, Page 20

TOSHIBA, Japanese electronics group, plans an alliance of information systems division with European software companies. Page 24

PIAGGIO, Italian Vespa scooter maker, may move production to India, following talks with Bajaj Auto, Indian scooter maker. Page 4

GROUPE VICTOIRE, Europe's fifth largest insurance group, is buying a 50 per cent interest in Laurentian Group's property unit based in Montreal for C$125m ($106m). Page 22

HEWLETT-PACKARD moved to merge its computer workstation product line with that of Apollo Computer, the company it acquired in April 1989. Page 22

ORIX, Japanese financial group, is buying contract rights for up to 74 A320 aircraft from Airbus Industrie, European aircraft maker. Page 24

GEC FERRANTI Defence Systems, defence contractor, is to shed up to 550 jobs in Edinburgh, Scotland, partly as a result of the cancellation of a contract involving the US Air force. Page 11

WEST GERMANY rejected an EC appeal to shelve plans for a controversial tax on foreign heavy trucks that could lead to blockades at its borders. Bonn plans to introduce the DM1,000 to DM9,000 ($590 to $5,300) tax on July 1.

Trump in last-ditch attempt to save stricken empire

By Alan Friedman and Roderick Oram in New York

MR Donald Trump, the cash-starved property mogul who last Friday defaulted on $73m of bank and bond interest payments, is negotiating a radical reorganisation of his stricken empire in order to stave off formal bankruptcy proceedings.

The last-ditch solution, after months of mounting financial troubles, is expected to see the forced liquidation of major assets and the installation of new top management including chief operating and financial officers acceptable to his creditors.

Liquidation of Mr Trump's major assets is likely to include the sale of the landmark Plaza Hotel in New York, his Trump shuttle airline, his personal yacht, formerly owned by Mr Adnan Khashoggi, the Saudi millionaire on trial for fraud, and a 72-acre parcel of undeveloped land on Manhattan's Upper West Side on which $200m is owed.

Mr Trump yesterday told his four main bank creditors – Citicorp, Chase Manhattan, Manufacturers Hanover Trust and Bankers Trust – that he would accept such an approach, a banker involved in the discussions said.

Senior representatives of the four main banks were locked in negotiations yesterday with officials from two small and recalcitrant New Jersey bank creditors, First Fidelity and Midlantic.

They were seeking an agreement among themselves on financial terms for the reorganisation which they then hope to sell to other domestic and foreign banks which participated in a total of $2bn of bank loans.

Time is running critically short for Mr Trump and his creditors because the 10-day grace period extended last Friday after his non-payment of $43m of interest on casino bonds will expire early next week.

Unless an accord is reached between Mr Trump and his bankers that makes fresh funds available to meet these obligations, the flamboyant property developer will be declared formally in default. This in turn would almost certainly unleash a rash of legal actions that would jeopardise his casino licences in Atlantic City and his ownership of some of the properties.

A key adviser to Mr Trump in the negotiations is Mr Myron Tepper, a bankruptcy lawyer at the New York firm of Willkie Farr.

After a weekend of intense squabbling among middle-level bankers, yesterday's talks – termed a "showdown meeting" by one banker – were attended by senior bankers with authority to "cut a deal" over Mr Trump's troubled property, casino and airline empire.

This deal, whether it is agreed now or later in the week, is expected to resemble a bankruptcy reorganisation.

Full co-operation of all the creditors is, however, essential if Mr Trump is to avoid filing formally for protection of the bankruptcy courts.

"Bankruptcy is a real possibility unless they can come up with an agreement or he can come up with an alternative source of money," a banker involved in the talks said.

Brittan's proposals on Rover payments spark EC dispute

By Lucy Kellaway in Brussels

BRITISH Aerospace will not be asked to reimburse taxpayers for allegedly having paid too little for Rover, the UK vehicle maker, which it bought for £150m ($253.6m) from the British Government in 1988.

Sir Leon Brittan, the EC competition commissioner, is however likely to recommend that British Aerospace must repay about £44m of sweeteners and other illicit aids granted by the British Government.

His proposals were due to be put to the 16 other EC commissioners tomorrow, but have proved so controversial that the meeting has been postponed for a further week to solve differences within the Commission.

Sir Leon's decision to drop the question of the undervaluation of the company is also bound to cause complaints of partiality to the British Government.

British Aerospace paid £150m for Rover when other reports suggested that it was worth some £250m or more. British Government officials have said that there should be no repayment of any supposed undervaluation and have threatened to test any such judgment in the European Court.

EC competition policy officials said that the question of valuation was legally complex and a demand for a repayment might not have stood up in court.


Competition Commissioner *Leon Brittan: "minimalist"*

As the Commission was involved in settling the original purchase price, it would have had to prove that information withheld at the time by the British Government would have led it to reach a higher price.

Sir Leon's proposal, described by one hostile Commission official as "minimalist", compares with his recommendation last month that Renault should be asked to repay FFr8.4bn ($1.47bn) in illegal state aid, a proposal that was regarded by the other commissioners as too strong.

It subsequently had to be watered down following heavy resistance from the French Government.

Two other parts of the Rover package remain unsettled.

Some commissioners feel that the 20 per cent stake in Rover recently taken by Honda, the Japanese car group, might contravene the initial agreement with the Commission.

This forbade BAe to dispose of any of Rover's "core businesses" under threat of a penalty of up to £400m.

Sir Leon is believed to regard a minority stake as not constituting a core holding.

The question of £20m of regional aid to British Aerospace is also causing problems. This was granted by the British Government in one payment in 1988 rather than spread over four years as agreed with the Commission. The suggested £44m repayment takes no account of this.

EC transport ministers were yesterday edging towards agreement on measures designed to breathe more competition into the European airline industry. Several key stumbling blocks in the complex package were removed. But a problem about Spanish access to London's Heathrow airport and the French Government's demands that it be allowed to continue subsidising certain regional routes were getting in the way of an overall deal. An Irish government spokesman said the negotiations were finely balanced. Report, Page 3

Taiwan broadens reserve holdings but retains gold

By Peter Montagnon and Robin Pauley in London

TAIWAN has completed a far-reaching diversification of its huge currency reserves but plans no sales of its gold holdings, Mr Samuel Shieh, the country's central bank governor, said yesterday.

In an interview with the Financial Times in London, Mr Shieh said Taiwan did not regard its gold reserves – largely bought through the US over the past couple of years in an attempt to reduce the country's trade surplus – as a speculative investment.

Its holdings of 13.6m ounces of gold are worth some $4.76bn at current prices. The metal's price has recently been falling sharply – it was fixed in London yesterday afternoon at $349.25 an ounce.

Taiwan's $80bn in official reserves are the largest in the world, having overtaken Japan this year after Tokyo sold billions of dollars to defend the yen on exchange markets. Japan's reserves stand at $73.6bn.

Mr Shieh disclosed that after the diversification of foreign exchange reserves, only 60 per cent was in US dollars, with about 20 per cent in D-Marks, 10 per cent in yen and the balance in other currencies, including sterling and Swiss francs.

He said this was roughly the same proportion as that adopted by most industrial countries and "the policy is to keep it that way." Previously, almost all of the currency reserves were held in US dollars.

Taiwan considered safety,


Central Bank Governor Samuel Shieh: no sale

profitability, liquidity and economic impact as the criteria for managing its reserves, Mr Shieh said.

An increasing proportion was being invested to help the local economy through the establishment of a foreign currency money market in Taipei and the provision of funds to help industry invest abroad to secure raw materials and technology transfer.

Asked whether Taiwan wanted to join the newly-formed European Bank for Reconstruction and Development, he said it wanted to "learn more about its operations" and was interested in co-financing opportunities with a range of multilateral institutions.

Although Taiwan's foreign exchange reserves had been placed with a range of banks around the world, its gold

Continued on Page 20

US court orders LTV to honour pension obligations

By Roderick Oram in New York

THE US Government won an important Supreme Court victory yesterday in its fight to prevent financially troubled companies from shirking their pension responsibilities, a move that can ultimately leave taxpayers providing for their retired workers.

The court ruled in a six-to-three verdict that LTV, the third largest US steelmaker, which has operated under protection of the bankruptcy court since 1986, had to reinstate three pension plans now that its financial health has improved.

The Government's Pension Benefit Guaranty Corporation had been trying since 1987 to get LTV to resume its pension obligations and make up a $2.3bn deficit in the suspended retirement plans.

But the agency had suffered repeated setbacks in lower courts which had accepted LTV's argument that the demand was "capricious" because it could not afford to pay.

The Supreme Court said LTV's financial performance was relevant to the case but not the only consideration. "The PBGC's restoration decision was not arbitrary and capricious or contrary to the law," Justice Harry Blackmun wrote in the majority opinion of the court.

The agency insures the pension plans of some 40m US workers covered by their companies' retirement plans. It repeatedly warned that if LTV avoided reinstating its pension plans then other companies with under-funded pensions might be tempted to file for bankruptcy court protection to reduce their obligations.

When a government-insured pension plan fails the agency steps in to maintain the retirees' benefits. Growing demands on its resources have left it with assets of only $3.2bn but liabilities of $4.2bn.

The LTV case has turned into one of the most convoluted ever seen in the bankruptcy field, largely because of the pension fund issue. With many of its financial obligations suspended pending an agreement with its creditors, LTV's performance has *improved dramatically. Last* year it earned net profits of $294.9m on revenues of $6.36bn after years of losses through the 1980s. It has offered $4bn of assets to settle $7bn of claims.

Dublin summit set to agree on EC political union conference

By David Buchan in Luxembourg

FOREIGN ministers of the 12 European Community members yesterday cleared the stage for twin-track negotiations for monetary and political union to begin later this year.

Mr Gerry Collins, Foreign *Minister of Ireland which* holds the EC presidency, said a large majority of states now wanted next week's Dublin summit to call a second intergovernmental conference to start writing political reforms into the EC treaties, alongside the monetary union conference already set for December.

The basis for this will be a paper on political union, prepared by the Irish presidency, which contains something to please each member. *According to a British diplomat, it* was approved by all ministers, including Mr Douglas Hurd, the UK Foreign Secretary.

As on the question of the monetary conference convening last year, Mrs Margaret *Thatcher, the British Prime* Minister, is expected to allow herself be quietly outnumbered and overruled when next week's Dublin summit formally calls for political union negotiations.

The remarkable, albeit temporary, unanimity has come about because the Irish paper – on turning the EC "from an entity mainly based on economic integration and political co-operation into a union of a political nature" – is a compendium of virtually all the *ideas thrown up over the past* three months.

These range from giving the European Parliament a full right of co-decision along with the Council of Ministers (an idea favoured by federally minded states) to a British-inspired plan to make the Commission more accountable for the EC taxpayers' money it *spends.*

When debate turned to economic and monetary union (Emu) it became clear that the Community's *leisurely* timetable on treaty renegotiation was grating on the nerves of Mr Jacques Delors, the EC president.

Mr Delors, who was critical of those states still calling for further advance preparation by *the Commission for the Emu* conference, said there were half a dozen key questions which might be "technically easy, but politically explosive," for him to answer.

The EC executive is to come up with its final version of Emu next month. But Mr Delors said resolution of such issues as allocation of power between *central banking and* political institutions, and the role of the European Currency Unit had to await the December treaty revision.

Mr Delors also hit out at those like Mr Karl Otto Pöhl, the Bundesbank president, who last week suggested the EC might have to move towards a two-speed membership in the monetary field.

The foreign ministers – who are apparently jealous of the finance ministers' growing importance in EC business – yesterday agreed there should be tight control to ensure that institutional changes were consistent with each other, and that they should be responsible for this.

CONTENTS

Ferry challenge to liners for the Blue Riband of the Atlantic

James Sherwood, president of Sea Containers, takes on 150 years of history today as his ferry, Hoverspeed Great Britain, sails from New York to *attempt the fastest* crossing of the Atlantic by a commercial ship. Page 31

MARKETS

STERLING
New York close
$1.715 (1.7095)
London:
$1.7135 (1.7065)
DM2.8725 (2.89)
FFr9.655 (9.7175)
SFr2.4275 (2.45)
Y263.25 (263.0)
£ index 90.4 (90.6)

GOLD
New York: Comex Aug
$352 (352.3)
London:
$349.25 (347.5)

N SEA OIL (Argus)
Brent 15-day
$16.00

Chief price changes yesterday: Page 21

DOLLAR
New York close
DM1.6742 (1.68835)
FFr5.6315 (5.6775)
SFr1.4155 (1.4337)
Y153.60 (153.875)
London:
DM1.676 (1.693)
FFr5.635 (5.695)
SFr1.4165 (1.435)
Y153.7 (154.15)
$ index 67.6 (67.9)
Tokyo close: Y153.88

US lunchtime rates
Fed Funds $8\frac{3}{16}$
3-mo Treasury Bills:
yield: 7.9%
Long Bond:
$103\frac{7}{8}$
yield: 8.46%

STOCK INDICES
FT-SE 100:
2,370.5 (-21.8)
FT Ordinary:
1,911.9 (-14)
FT-A All-Share:
1,169.29 (-0.8%)
New York close
DJ Ind. Av.
2,882.18 (-53.71)
S&P Comp
358.32
Tokyo: Nikkei
32,376.8 (-161.6)

LONDON MONEY
3-month interbank:
closing $14\frac{29}{32}$ ($14\frac{29}{32}$)%
Liffe long gilt future:
Sep $84\frac{1}{16}$ ($85\frac{7}{16}$)

EUROPEAN NEWS

EC ministers edge nearer to air liberalisation accord

By Tim Dickson in Luxembourg

EUROPEAN Community Transport Ministers were last night edging towards agreement on measures which should breathe more competition into the airline industry.

Several key stumbling blocks in the complex package were sorted out in early talks yesterday. But a problem about Spanish access to London's Heathrow airport and the French Government's demands that it be allowed to continue subsidising certain regional routes were getting in the way of an overall deal.

An Irish government spokesman said the negotiations were finely balanced. He said Spain, supported by the other Mediterranean countries, could yet block the accord because of a dispute caused by the shortage of slots available to Spanish airlines at Heathrow.

The so-called second stage of air transport liberalisation is not likely to bring substantially cheaper fares to European travellers, but it is seen by Brussels as a vital preparation for the fuller freedoms of the single market from January 1 1993, when fare restrictions and the cosy bilateral capacity and revenue-sharing agreements among EC governments will disappear.

In the meantime, the idea is to set fare "zones" where member states' approval will be granted automatically, as well as to eliminate in three intermediate steps the capacity-sharing system.

There is concern in the liberal camp that big airlines could use the next two to three years to gobble up their smaller competitors or, worse still, drive them to the wall.

That is why there was some satisfaction last night when broad agreement was reached on new EC powers to curb predatory pricing and other anti-competitive practices.

Another issue which was resolved was Denmark's concern over the treatment of its Scandinavian neighbours.

Its reservations were lifted when other member states decided that talks on an air transport agreement with Norway and Sweden should begin immediately, before negotiations with other countries of the European Free Trade Association.

● In a separate development yesterday, Mr Wilhelm Knittel, junior West German Transport Minister, said Bonn was determined to go ahead with plans to impose a tax on all lorries using its roads after 1 July.

His comments appear to remove any lingering hope of a compromise with the European Commission, which says it will take legal action in the European Court of Justice.

Brussels says the tax – which will vary from DM2,000 to DM10,000 is discriminatory and against the principles of free trade.

● The Commission yesterday decided to initiate proceedings against Belgium for infringement of Community rules on the limitation of noise from subsonic aircraft.

EC aid to Moscow should be considered carefully says Hurd

By David Buchan in Luxembourg

THE EC summit next week will tackle the increasingly pressing question of aid to the Soviet Union, Mr Douglas Hurd, the UK Foreign Secretary, predicted yesterday.

He said, after a meeting of EC foreign ministers had discussed possible assistance for Moscow at their regular monthly meeting, that "it is urgent that we begin to consider the Soviet economic position, but also that we consider it very carefully. We are dealing with a country with abundant resources, but suffering from a unique form of misgovernment."

Therefore, the west and the EC should think very carefully before putting its money into the Soviet Union, he said.

Next month's Houston summit meeting of leaders of the seven major industrialised countries and the European Commission will discuss aid to Moscow. In advance of that meeting, Mr Jacques Delors, the commission president, yesterday urged the EC to ready its own position and evidently found willing listeners. The discussion was, however, described as preliminary and without figures.

Many Europeans, especially the Germans and those from some smaller states, are generally still smarting from the pressure exerted by the US to make sure that the Soviet Union would not be able to borrow from the new European Bank for Reconstruction and Development (EBRD) more than the membership capital it puts in.

The EBRD, which has yet to start lending, is so far the only institution open to Moscow. Mr Roland Dumas, the French Foreign Minister, mentioned the possibility of the European Investment Bank , an EC institution which is already lending to eastern Europe, helping the EBRD get started by lending it staff.

Communists clinch victory in Bulgarian elections

BULGARIA'S former communists, reshaped to conform with eastern Europe's reforming trend, clinched victory yesterday, by achieving a parliamentary majority in the country's first free poll in more than four decades, Reuter reports from Sofia.

"It is a vote of confidence," Mr Andrei Lukanov, the Prime Minister (pictured right, with supporters), declared, amid jubilation in the streets of Sofia among supporters of his Bulgarian Socialist Party (BSP), the former communist party.

The elections, which took place over two rounds on June 10 and 17, made Bulgaria the only country in eastern Europe to have returned its rulers to power in free elections.

"The party has regained confidence but it has a long way to go to regain the moral authority it had years ago," Mr Lukanov said.

His party won 211 seats in the 400-seat National Assembly.

The opposition Union of Democratic Forces (UDF), an alliance of 16 groups which had only seven months to prepare its election campaign, won 132 seats.

Despite reporting some electoral irregularities in the election and a number of cases of overt intimidation, foreign observers have generally judged the polls to be fair.

The UDF has alleged fraud in some constituencies but it has accepted the outcome and resigned itself to a role as the country's largest opposition bloc.

Serbia rules out elections this year

By William Dullforce in Geneva

ELECTIONS in the Yugoslav republic of Serbia will be held only after the promulgation of a new constitution, Mr Aleksandar Prija, Secretary for Foreign Relations in the Serbian government, said yesterday.

This means that elections might be held in 1991 but not this year as demanded by opposition parties, he said.

The new constitution would provide for a plurality of parties and allow minorities full ethnic and cultural rights including education in their own languages, but it would fully preserve Serbia's territorial integrity.

The autonomous provinces of Kosovo and Vojvodina, as organised now, presented obstacles to Serbian integrity, he said.

The one-party Communist government of Serbia is under pressure from the opposition to follow swiftly the examples of Croatia and Slovenia, which have already held elections in which the Communists have lost power.

It is also under pressure from 1.4m ethnic Albanians in Kosovo who are demanding independence.

Under the timetable Mr Prija outlined, a new party with a new programme would be formed at a party congress on July 12.

A constitution, providing for a multi-party political system, would then be promulgated by the existing three-chamber Serbian parliament before the end of the year.

Accountant ends Soviet monopoly

By David Waller

ARTHUR ANDERSEN has become the first international accounting and consultancy firm to penetrate the potentially vast auditing market in the Soviet Union.

Although all the international accountancy firms have a presence in the Soviet Union, they have been limited to doing general advisory work.

Under the terms of a formal registration granted last week, Arthur Andersen will be allowed to audit both joint –ventures between Soviet and western companies as well as Soviet state enterprises and co-operatives.

The vehicle for the firm's thrust into the Soviet Union is a new joint venture between the firm's West German partnership and Promstroybank, the USSR's biggest bank, and NPO Dinamo, a Soviet industrial and engineering company.

Portugal raises rates of interest

By Patrick Blum in Lisbon

PORTUGAL yesterday raised its key interest rates by 1 and 1.25 percentage points, in response to a further surge in inflation last month. Prices rose by 1.1 per cent in May, bringing the average annual rate to 12.8 per cent and the year-on-year rate to 14 per cent.

This underlines the Government's problems in trying to curb inflation. The Finance Ministry has an inflation target of 9.5-10.5 per cent for 1990, but this looks unlikely to be achieved.

The inflation rate, at over twice the EC average, makes early entry of the escudo into the EMS harder, despite Lisbon's hopes. Interest rates on term deposits of over 180 days rose from 13 to 14 per cent. Home-loan interest rates rose from 13.25 to 14.50 per cent.

Romania's Government tries to repair image abroad

By Judy Dempsey in Bucharest

THE Romanian authorities are desperately trying to repair their image after the violence which swept Bucharest last week, but intellectuals and diplomats say the moves will not prevent intimidation becoming a feature of the country's political life.

After days of criticism from the international community, and growing fears that economic and humanitarian assistance crucial to rebuilding the country's shattered economy will be held back, the Government is embarking on an exercise in damage limitation.

The message directed at western governments, opposition parties and intellectuals is that President Ion Iliescu and the National Salvation Front-dominated Government remains committed to building a democratic society.

The Government's image has been battered by its capacity for lying and by its unashamed public support for mob rule. Its first attempt to restore its image came on Sunday night, when Romanian television finally broadcast several interviews critical of the violence meted out to innocent people by the miners.

It also showed crowds of anti-government demonstrators who that evening had regrouped on University Square, where the first wave of violence began last week.

However, allowing the pictures of the demonstrations to be shown is likely to enrage the miners, the workers and the security forces, who loathe the students and intellectuals.

"This Government has no idea about crisis management or about how to deal with the media," said a western diplomat. "One day it clamps down, the next day it opens up. The inconsistency breeds even more instability and distrust."

To reassure the opposition of a future role in the country, the Government has promised to compensate the political parties for the destruction caused by the miners. It has also promised to set up an investigation into the violence.

The atmosphere of intimidation in the capital remained yesterday , with plainclothes security men confident enough to rough up several correspondents trying to pass through a phalanx of police and army near the Parliament.

Mr Iliescu's critics say that if the president and the Government can not exercise moral authority instead of naked force, then the country will lurch from crisis to violence. They add that this will make stability impossible to achieve.

The one tool at the Government's disposal is economic aid from the west. Without such aid, discontent is likely to rise, and xenophobia could intensify in a country still ambivalent about the west.

The collusion of these factors could play into the hands of disgruntled communists or nationalists, who remain a powerful and potent force in the country's consciousness.

Some of Mr Iliescu's advisers believe the Government must start providing real proof to the west that it is committed to building the foundations for a democracy.

WORLD TRADE NEWS

All services must be included in Gats, EC insists

By William Dullforce in Geneva

THE European Community is insisting that all services, including shipping, aviation, banking insurance and telecommunications, be covered by the trade-liberalising General Agreement on Trade in Services (Gats) being negotiated in the Uruguay Round.

EC officials said that in the draft legal text it tabled yesterday, Brussels was seeking "meaningful commitment in all relevant sectors". The US wants a separate agreement on financial services, while Congress is considering bills to keep civil aviation outside Gats. Tabling the text is a triumph for the EC Commission, since it has reconciled the varying interests of its 12 member states. Greece, for instance, was not expected to agree to include shipping in the sectors to be covered by Gats.

The draft comes at a crucial time, when the group negotiating on services in the Uruguay Round nears the end-July deadline, by which it is due to deliver a firm outline of a framework Gats. Switzerland also submitted a draft text yesterday. Previous drafts have come from the US, a group of South American nations, and seven developing countries.

In April, the US and EC submitted jointly proposals on how to begin liberalising. This week, the negotiating group is working on reaching agreement on the nature of the initial commitments countries should make and on the mechanics of the liberalisation process.

In its Gats blueprint, the EC proposes that liberalisation of the $600bn (£355bn)-a-year trade in services allow for cross-border movements of both services and consumers and the right of providers of services to set up a commercial presence in other countries.

Governments would accept principles of national treatment and non-discrimination, providing foreign companies with treatment no less favourable than offered to domestic companies. They would agree to add no new curbs on access to their markets from the proposed entry into force of the Gats on January 1, 1992.

Each government would specify in a schedule any existing curbs on market access, inconsistencies with the agreement in its provision of national treatment, and in the subsidies offered to providers of services. Within three years, countries would negotiate total or partial elimination of the curbs and inconsistencies "on a reciprocal and mutually advantageous basis".

These commitments would take into account each country's level of development, generally and for each individual sector. The Europeans say their Gats blueprint covers developing countries, which fear an all-embracing Gats could inhibit growth of their domestic services concerns.

The EC plan provides for "co-operation" to block the restrictive business practices developing countries fear from multinational enterprises.

Saab truck deal with Iran

By Robert Taylor in Stockholm

SAAB-SCANIA, the Swedish car and aerospace group, has reached agreement with the National Iranian Oil Company for it to buy 1,000 Scania heavy trucks.

Financial details of the deal have not yet been settled but total value of the sale is expected to be about SKr400m (£38.75m).

The first deliveries will be made this November and the whole order is to be completed during the first quarter of next year.

The deal comes at a fortunate time for the company, when there are clear signs of a dampening in demand for trucks in the western European market.

The last time Saab-Scania sold trucks in the Iranian market was in 1984 and 1985, when around 2,000 were bought for Iran's container transport industry.

US eases technology licence burden

By Nancy Dunne in Washington

THE US Commerce Department yesterday said it had prepared an "interim" rule which meant individual export licences would no longer be required on about $30bn (£17.75bn) worth of low and mid-level US technology products sold in western countries.

Mr Dennis Kloske, Department under-secretary, said the rule, in effect in about two weeks for "a significant number of goods", would ease much of the heavy paperwork requirements for American exporters.

The new procedure would scrap individual licences now required for all telecommunications exports, most semiconductor manufacturing equipment, and computers with a processing data rate (PDR) of up to 2,000. Computers above PDR 550 now require licences.

A spokesman for the Computer and Communications Industry Association characterised the new rule as a "good" initial move but insisted: "It still doesn't make sense to have that level of controls to CoCom countries.

"It is our hope that by the end of the year, when they agree on a core list (of controlled items) and have some of the enforcement improvements in place, we can then really see a move to a licence-free zone."

A number of items, considered to be of strategic importance and at high risk of diversion to the Soviet Union, will continue to require individual licences. This much-abbreviated "exclusion list" will include equipment for advanced underwater detection and cryptography.

Mr Kloske said more decontrols on West-West trade will be instituted on April 30, when the harmonisation process is likely to be completed.

The new rule follows agreement this month in the 17-nation Co-ordinating Committee for Multilateral Export Controls (CoCom) to liberalise constraints on high-technology sales to eastern Europe and harmonise Western export control regimes.

The pain of cutting Moscow's apron strings

E Germany stands to lose at first as its trade goes to market, writes **David Goodhart**

FEW SUBJECTS have caused more confusion in the rush towards German economic union than the future shape of East Germany's trade with the Soviet Union and the rest of the former East Bloc.

When Chancellor Helmut Kohl earlier this year promised Moscow that trade contracts with East Germany would be honoured after re-unification, it was widely seen as a generous offer designed to calm fears about German unity. It was an offer, moreover, with the positive side effect of cushioning a section of East German industry from the blast of western competition.

Today Mr Kohl's offer appears to have been no more than a vague gesture of goodwill. At the beginning of next year all but about 10 per cent of Soviet-East German contracts will come up for re-negotiation – and may come out of it on quite different terms.

And even earlier, in most cases directly after currency union on July 1, the financial basis of Soviet-East German trade will change from the artificially-valued East German "valuta marks" to D-Marks against the transferable rouble. The final step to a complete hard currency system will be taken next year, as planned even before last year's political changes in eastern Europe.

For a period, estimated at anything between one and fiveyears, a form of "clearing house" system will be needed,

THE CHALLENGE OF UNITY

as normal trade between companies gradually replaces barter deals between states arranged by central planners.

So despite Mr Kohl's offer rapid restructuring of trade relations is imminent. More unexpected, it appears the beneficiaries will, at least in the short-term, be the Soviets and not the East Germans.

That, anyway, is the view of many East German bosses who believe their Soviet (and wider East Bloc) trade is threatened almost as much as their protected home markets by currency union and associated changes.

Estimates vary, but about a quarter to a third of all East German foreign trade is with the Soviet Union and about one-tenth of all Soviet trade is with East Germany. Its total value is roughly 15bn transferable roubles a year. East Germany imports mainly raw materials or semi-finished products as well as almost all its gas and oil from the Soviet Union. East German exports are mainly investment goods.

The transport equipment industry is highly dependent on the Soviet market, as are machine tools and plastics, agricultural and textile machinery. Some 15 per cent of all East German industrial jobs – about 260,000 directly, and 480,000 indirectly – depend on Soviet trade.

The Soviet Union appears to have been generous in trade relations with its satellites. According to Mr Valentin Falin, the Germany expert on the central committee of the Soviet Communist Party, the Soviet Union would have received $7bn more last year if its trade in the Moscow-led socialist common market Comecon had been calculated in world market prices, $1.5bn alone from East Germany.

That is now ending. The conversion from an over-valued valuta-mark to D-Marks (which used to be officially exchanged at one-to-one) will be a drag on the East German terms of trade. Under the existing system, 4.67 valuta marks equal one transferable rouble. On conversion, the East Germans want a rate of DM2.5 per transferable rouble, while Moscow is holding out for a more realistic DM1.7.

When trade fully changes to hard currency and world market prices next year the East Germans will have to pay more for their Soviet imports and they will receive less for their own goods. Mr Heinrich Machowski of the DIW economic institute in West Berlin reckons the Soviet union pays about a third more than world market prices for most finished goods from East Germany. East German experts say the move to hard currency trade will cut the value of machinery exports by about 3bn East German marks.

On top of that the Soviet Union will be free from next year to shop around the world for their investment goods: East Germany may have produced the best goods in Comecon, but worldwide it can compete in only a few niches and will thus have to slash prices.

It is easy to appreciate the anxiety of East German bosses and to understand why the debate in West Germany now focuses on how much will be needed to prop up the East German companies worst hit by the new terms of trade. Bonn hopes to get away with DM2bn in support for companies with Soviet contracts. East Berlin wants at least double that.

But things may not be as bad as they seem. Mr Karl-Hermann Fink, East bloc trade expert of the Federation of German Industry, believes that at least for a transitional period the Soviet Union will not be flexible enough to take advantage of its trade freedom.

Mr Machowski also says the Soviet Union cannot abandon East German technology immediately and would not be able to use state-of-the-art-technology. He also believes East Germany's accumulated 2bn transferable rouble trade surplus with the Soviet Union will help cushion the blow.

About 15 per cent of all Soviet trade is with the two German states combined, and the consensus is that, despite transitional difficulties, it will grow rather than shrink. But how much of that future trade will actually come from what today remains East German soil is harder to judge.

Many West German firms have said East German companies' Soviet trade links are the only thing that makes them attractive. The West German RWI Economic Institute has, however, pointed out that Russian-speaking Soviet trade experts can easily be poached without having to buy a whole company.

EAST GERMANY	1988	1989
EXPORTS ($bn)		
World	16.8	17.3
Soviet Union	4.1	4.1
Other E Europe	3.1	3.1
IMPORTS ($bn)		
World	17.4	17.9
Soviet Union	4.2	3.9
Other E Europe	2.8	2.9

Source: UN ECE

Piaggio may link with Indian scooter maker

By David Housego in Bombay

PIAGGIO, the Italian Vespa scooter maker, could shift most of its production to India, following talks taking place with Bajaj Auto, India's largest scooter manufacturer.

Plans involve Piaggio transferring to Bajaj plants in India about 70 per cent of its annual output of 700,000 scooters and mopeds over the next five to seven years. The two groups have given themselves until March 1991 to decide on whether to finalise an agreement.

Bajaj Auto, with an annual output of 800,000 two wheelers, has already over 40 per cent of the Indian market, and is the world's second-biggest scooter maker after Honda. If an accord is reached, it would be the largest tie up yet negotiated by an Indian engineering concern with a foreign group to make products to be marketed globally.

Piaggio's aim in negotiating a partnership is to cut costs in the face of Japanese competition. Bajaj is seeking access to Vespa's design capability, technology and research and development to improve its competitiveness.

Mr Rahul Bajaj, chairman, believes his group cannot look to partnerships with Honda, Suzuki and Yamaha, which see him as a potential competitor.

In the past year, Mr Bajaj has met Piaggio executives, and teams from each group has visited the other. Under the proposed tie-up, Piaggio would initially shift part of its component making to India.

While Piaggio would keep control of European marketing, and Bajaj in India, the two groups would set up a new company on a 50-50 basis, to market elsewhere in the world. They would pool research, designs, technology and components. The two sides have also considered an equity swap but have decided to make any decision on this depend on the smooth running of the accord.

One problem is that Piaggio already has another tie-up with a smaller Indian manufacturer – Lohia Machines (LML) – which makes a 150cc scooter under licence from the Italian company. Piaggio will keep its accord with LML until 1994, while taking a stake in the company to offset unpaid royalties.

The Piaggio-Bajaj link-up would transform Bajaj into an international group. So far, its expansion has been geared to the Indian home market, with both exports and R&D accounting for about 1 per cent each of sales.

Thailand 'dumped ball bearings'

THE European Commission has found Thailand guilty of dumping ball bearings on the European market and yesterday announced a 6.7 per cent dumping duty, Lucy Kellaway reports from Brussels. It said it had received a Thai Government pledge to stop subsidising ball-bearing output.

The duty applies to all Thai ball bearings of less than 30mm used in assembling consumer and capital goods. Evidence was found of four different types of subsidy, equal to 13 per cent of import price. In the year to March 1988, the Thai share of the European market rose from under 1 per cent to 9 per cent.

Central American accord falls short of full integration

By Tim Coone in Guatemala City

CENTRAL AMERICA'S presidents have launched with much fanfare a Plan of Economic Action following their weekend summit, which for the first time included Panama.

The plan aims to boost intra-regional trade, exports, foreign investment and tourism and to co-ordinate macro-economic policies with a view to the eventual formation of an "Economic Community of the Central American Isthmus."

President Vinicio Cerezo of Guatemala, who hosted the meeting, described the agreement as "transcendental and historic". He said the region's economic integration was the key to its development and that "a greater and more just distribution of wealth is the only way to break the circle of violence."

None the less, the summit fell short of taking more substantial measures to harmonise the region's diverse set of customs tariffs, exchange rates and monetary and fiscal policies. These remain as obstacles to freer trade and foreign investment in the isthmus.

Key points of the plan are:

- to co-ordinate infrastructural projects in the region which affect land and maritime transport and electricity generation and transmission;
- to co-ordinate foreign debt negotiations;
- to promote jointly the region's exports, and its potential for tourism and foreign investment through each country's embassies overseas;
- to request an expansion of the Caribbean Basin Initiative to promote exports to the US, and to negotiate a preferential trade agreement with the EC similar to the Lomé Convention;
- to simplify customs and migratory paperwork to promote the movement of goods and people in Central America;
- to reduce non-tariff barriers to regional trade and to reduce customs tariffs.

Efforts to establish a Central American Common Market in the early 1960s had collapsed by the following decade, as trade imbalances led to political tension and even to the outbreak of war in 1969 between El Salvador and Honduras. Regional trade stagnated further in the 1980s as foreign debt problems and political violence took their toll.

According to Mr Olivier Castro, the executive secretary of the Central American Monetary Council, accumulated bilateral debts among the region's five countries now stood at $700m (£414.2m). This is mostly owed by Nicaragua and Honduras to the other three countries.

In addition to the economic accords, firm pledges were again made by the presidents committing their governments to respect of human rights, freedom of expression and to improvements in their systems of political representation.

Thrifts scandal casts a shadow over Washington

Politicians outside the capital stand to gain most from the S&L débâcle, writes Peter Riddell

The savings and loan crisis is "the biggest sleeping giant on the political landscape," according to Mr Ed Rollins, the head of the National Republican Congressional Committee. In the last couple of weeks there have been signs that the giant is stirring.

Mr Nicholas Brady, the US Treasury Secretary, and other senior officials responsible for the rescue – the largest in US history – faced a barrage of bipartisan complaints when they appeared recently before the House Banking Committee.

There were complaints not only about slowness in prosecuting fraud but also of mismanagement of the rescue. Separately, there have been calls for an independent investigation of the affair.

It has been hard to apportion the blame. Democratic as much as Republican Congressmen and the Reagan Administration were responsible for the key decisions of the early 1980s, such as the increase in the upper limit of Federal insured deposits to $100,000 and the deregulation of their activities, which contributed to the later speculative boom and bust.

Prominent Democrats have so far been the main political victims. Mr Ferdinand St Germain, who had been chairman of the House Banking Committee, was one of the 2 per cent of House members defeated in 1988, following questions about gifts from industry lobbyists.

Mr Jim Wright, the Democratic House Speaker, and Mr Tony Coelho, the House Majority leader, were forced to resign a year ago in part because of controversy over their links with S&L executives and intervention with regulators. Both received contributions from employees of the failed Vernon Savings and Loan, whose former owner, Mr Don Dixon, was last week indicted on 38 charges of conspiracy and misapplication of funds.

The most well-known S&L scandal involves the Keating Five or the Lincoln Brigade – the five senators currently being investigated by the Senate Ethics Committee about whether they improperly put pressure on Federal regulators who were examining the now failed Lincoln Savings and Loan run by Mr Charles Keating. He had given or raised $1.3m (£760,000) for the five – four of whom are Democrats, including Senator Don Riegle, chairman of the Senate Banking Committee.

The Bush Administration came into office promising to clear up the mess, but is facing growing criticism as the cost of the rescue mounts – up from $73m to $132m according to the Treasury (in present value terms and excluding interest costs) and substantially more on some outside estimates.

But the Administration is in a no-win position. It has an unlimited liability as a result of the Federal guarantee to depositors while costs are increasing as a result of falling property prices and higher than expected interest rates. Together these factors make it more difficult to dispose of collapsed S&Ls and cause more to fail.

However, if both parties in Washington find it hard to make the affair a clear-cut partisan issue, it may be easier for those outside the capital who are not involved. Several political consultants have suggested that it might become a way for challengers to attack incumbents, a potentially powerful populist issue.

Governor Mario Cuomo of New York and Senator Bill Bradley, who voted against last year's rescue legislation, won applause when they argued that ordinary Americans were being forced to bail out millionaires. Both are running for re-election this November and are on everyone's list of possible Democratic presidential candidates in 1992 or 1996.

Mario Cuomo: voted against rescue legislation

New York business warned over threat of telecoms failure

NEW YORK, with more than $1,500bn (£887bn) of financial transactions flowing through its telephone lines each day, must take steps to ensure its telecommunications system can better withstand disasters, a city lobby group has concluded, writes Roderick Oram in New York.

Mr Ronald Shelp, president of the New York City Partnership, an association of business and civic leaders, said: "We cannot afford to gamble with either the system's ability to resist disasters or its status as a technological leader."

Although the city's telecommunications equipment might be better than that of other big financial centres, such as London and Tokyo, the hazards were greater in New York, said Mr Michael Tyler, head of the information technology practice of Booz Allen & Hamilton. The consulting firm's report for the partnership on the city's phone system was released yesterday.

"I can't put a probability on a disaster occuring but it is certainly a real risk," Mr Tyler added.

Banks, brokerage houses and other companies dependent on communications over the phone should be acutely aware of the dangers. A fire destroyed a central office switch in suburban Chicago in 1988, knocking out 1m lines. Local service took up to two months to restore. However, the Booz Allen study found a number of big New York financial institutions had no telecommunication back-up. "If we were stockholders, we would be very concerned," Mr Tyler said.

The partnership urged companies in the city's business districts to have two separate phone feeds into their buildings and routings to two central office switches. Regulatory changes would enable phone companies to provide such back-up more efficiently and cheaply.

The group also called for reductions in the cost of the city's telecommunications. Local calls, for example, can be as much as 50 per cent higher than in neighbouring New Jersey.

Regulatory changes would also encourage investment in new products and services to help the city retain its technological competitiveness, the group said.

Mexico wins loan to fight pollution

By Richard Johns in Mexico City

JAPAN has agreed to make an $815m (£482m) loan, to help Mexico combat its pollution problems, the Mexican press reported yesterday.

The announcement was the main outcome of President Carlos Salinas de Gortari's visit to Tokyo as part of an attempt to consolidate relations with the Pacific Basin countries.

Of the total aid commitment, $315m will be devoted to cutting pollution by Petroleos Mexicanos (Pemex), the cash-starved state monopoly. Terms of the loan were not announced.

Vehicle pollution is reckoned to account for as much as 80 per cent of the pollution in the Valley of Mexico, with industry accounting for the rest.

Mexican pollution is seen as one of the world's biggest environmental problems, after the devastation of the world's rain forests. However, one British specialist visiting here recently said some east European industrial zones were more badly polluted than Mexico.

Japanese officials said aid from Tokyo for the clean-up would have been available much earlier if the Mexican Government had drawn up plausible, specific proposals when Mr Toshiki Kaifu, Japan's Prime Minister, visited Mexico City last year.

Mandela praise for Mulroney

By Bernard Simon in Toronto

Mr Nelson Mandela, deputy president of the African National Congress, yesterday praised Mr Brian Mulroney, the Canadian Prime Minister, for his country's unrelenting opposition to apartheid at the UN and in the Commonwealth.

Speaking to the House of Commons in Ottawa at the start of the North American segment of his gruelling overseas trip, Mr Mandela asked Canada to "stay the course with us" while black and white South Africans negotiated a new constitution.

In particular, Mr Mandela made a plea for financial assistance for the ANC as it enters the mainstream of South African domestic politics. He asked MPs to urge their constituents to contribute to the anti-apartheid movement.

Mr Mulroney has made South Africa a key part of his Conservative Government's foreign policy, much to the irritation of Mrs Margaret Thatcher of Britain, with whom he has clashed at several Commonwealth meetings. Canada has imposed a wide range of sanctions against Pretoria, but has stopped short of breaking all trade links or cutting off diplomatic relations.

The Canadian Government has declined to provide financial support directly to the ANC.

Amnesty lists police atrocities in Brazil

By Christina Lamb in Rio de Janeiro

BRAZILIAN authorities have been accused of turning a blind eye to widespread murder and torture by police officials, in a damning report by the human rights organisation Amnesty International.

The report, published in Brazil yesterday, called on the Government of President Fernando Collor de Mello to stop what it called "rampant civil and military police violations" and end the "crisis in Brazil's criminal justice system".

Amnesty officials said that police officers routinely tortured and killed suspects in custody and ran death squads, often to settle personal feuds, "knowing such crimes are rarely punished". The report claimed torture was so common that highly-placed officials admitted it was one of the main techniques the police used to "solve" crime.

It cited examples of prisoners being suspended by their wrists and ankles from iron bars, beaten and given electric shocks while jets of water were forced up their nostrils.

This is the first time a report on a particular country has been released in the country concerned, rather than at the organisation's headquarters in London. The move will test the commitment of the new government to protecting human rights.

Brazil returned to civilian rule in 1985 after 21 years of army rule, but despite the introduction in 1988 of a new constitution which banned torture and guaranteed human rights, the Amnesty team found these were not being implemented.

The report covers the period 1985-90, before President Collor's Government came to power.

"Brazilian citizens, especially the young and the poor, are increasingly victims of police brutality," it said, adding "generally the authorities fail to take action."

According to Amnesty, confessions extracted under torture have been frequently used as evidence. "Brazilian state governments are in effect condoning this violence and encouraging police to act as if they are beyond the law by not clamping down on the killers."

BRAZILIAN civil servants were kept waiting yesterday for the expected announcement of up to 360,000 job cuts promised by the Government of President Fernando Collor, writes Christina Lamb.

Mr João Santana, the administration secretary, who is responsible for compiling the list of cuts, issued no statement. A representative said he was still waiting for details from some of the 12 ministers. "We are still expecting to announce 360,000 dismissals, but so far we are only up to 79,000," she said.

India and Pakistan to hold talks on Kashmir in July

By K.K. Sharma in New Delhi

SENIOR officials of the Foreign Ministries of India and Pakistan are to meet in the first fortnight of July to discuss ways to ease tensions between the two countries, an Indian government spokesman announced in New Delhi yesterday.

The meeting will be the first between representatives of the two countries since relations deteriorated rapidly at the beginning of the year when a Moslem insurgency aimed at gaining secession of Kashmir from the Indian Union began.

Since then, there have been heavy troop concentrations along the Indo-Pakistani border, giving rise to fears that a war would break out over the Kashmir issue.

Leaders of both countries have accused each other of interfering in their internal affairs.

The suggestion for a meeting at official level was made by Pakistan a fortnight ago in response to a package of "confidence-building" measures proposed by India after a token withdrawal of an Indian armoured division from near the Pakistan border.

Pakistan had then expressed reservations over India's package on the ground that this did not mention the main issues causing the current tensions - the Kashmir issue and the troop concentrations.

India's package calls for measures such as closing training camps to militants, halting supplies of arms and ammunition to them and seizure of all potential intruders. It also proposed sharing information on military exercises, frequent contact between army commanders and exchange of delegations of their armed forces.

The Indian spokesman said his country had agreed to Pakistan's proposal for a meeting of senior officials because of "our willingness and readiness to engage in a purposeful dialogue."

Nevertheless, India is certain to resist moves for talks on the merits of the Kashmir issue since it consider's the state's accession to the Indian Union as final.

India wants Pakistan first to agree that it will not encourage secessionist demands by the Kashmiris and give assurances that it will not raise the Kashmir issue at international forums.

India has reiterated that it stands by the Simla agreement of 1972 which calls for a settlement of the Kashmir issue through bilateral talks.

Seoul expects economy to show faster growth this year

By John Ridding in Seoul

THE South Korean economy will grow by about 9 per cent in real terms in 1990, recovering from its slowdown to a growth rate of 6.7 per cent in 1989, a leading think tank is predicting.

However, the government-backed Korea Development Institute also warned that consumer prices would rise by 12 to 13 per cent this year, the highest inflation rate since 1981.

The forecast growth rate represents a sharp increase over the Government's beginning-of-year target of a 7 per cent increase and follows a much stronger than anticipated growth rate of 10.3 per cent in the first quarter.

Unlike the 1980s, when double-digit economic expansion was based on strong export performance, the principal stimulus for growth in 1990 will come from domestic demand. In particular, a domestic construction boom and strong consumption will continue to fuel growth, while exports are expected to remain sluggish.

According to the KDI, exports will strengthen in the second half of the year as the impact of moderate wage increases and the depreciation of the Korean currency feed through. But export growth will still be limited to a meagre 3.8 per cent and Korea is expected to register deficits of almost $2bn (£1.2bn) in both its current account balance and external trade balance.

The KDI expressed concern about the sharp increase in inflation, which is set to soar above the Government's target of 5 to 7 per cent for the year.

The institute said that the rate of price increases could reignite labour disputes and establish a wage-price spiral, and that the Government should tighten liquidity, reduce domestic consumption and take steps to improve industrial productivity.

GNP growth is expected to be 10.4 per cent in the first half of the year, and 7.8 per cent in the second half. In 1991, the economy is forecast to grow by between 8 and 8.5 per cent, with exports showing a good recovery.

World demand refloats South Korea's shipbuilders

An industry recently hit by a slump and labour troubles is now back on course, writes John Ridding

SOUTH KOREA'S shipbuilding industry, which floundered in a trough of reduced international demand, price wars, and overcapacity during the 1980s, is firmly back on course.

According to figures released earlier this month by the Korea Shipbuilding Association, South Korean shipyards received orders for 67 vessels totalling 4.37m gross tons in the first five months of the year.

This represents a more than three-fold increase over the 1.33m tons of new orders received in the same period in 1989 and guarantees enough work to keep Korea's yards busy beyond the end of 1992. The backlog of orders stands at a record 9.32m tons.

SOUTH KOREA
Production of four biggest shipyards (gross tons)

	1987	1988	1989
Hyundai	1,194,450	1,698,839	1,190,500
Daewoo	282,000	1,239,000	1,154,100
Korea Shipbuilding and Engineering Corp	191,800	94,600	126,500
Samsung	266,250	264,000	403,200

NEW ORDERS, COMPLETION, ORDER BOOK
(000s gross tons)

	1988	1989	1990 (Jan-May)
New Orders	3,042	3,472	4,370
Completion	3,357	2,926	941
Order book	5,260	5,890	9,320

Source: Korea Shipbuilders Association

These figures represent a marked contrast from what existed just two years ago. An international slump in world shipping demand in the mid-1980s was made worse in Korea by the timing of investment in capacity expansion and increased labour militancy.

Burdened with huge debts, wage increases of more than 15 per cent a year and prolonged labour disputes, a number of the manufacturers faced serious difficulties. Daewoo Shipbuilding, the second largest, suffered most severely and required a government-backed rescue package to ensure its survival.

Korea Shipbuilding and Engineering Corporation suffered a costly contract dispute with a Norwegian shipping company concerning six "Probo" vessels – ships which can transport oil, bulk freight or container cargo. KSEC's financial difficulties forced the Government to intervene and after a bidding process the company has come under the control of the Hanjin industrial group.

Of the four leading yards, only Hyundai Heavy Industries, the largest in Korea, reported a profit in 1988.

"Things are very different now," says Mr Lees Sang Kuk, executive director of the Korea Shipbuilders Association. "We expected an upturn but have been surprised by the strength of the market so far this year."

The changed fortunes of the industry are the result of a number of coincident factors. Most immediate is the upturn in the world shipbuilding industry. Demand has been strong for VLCCs (very large crude carriers) as a result of the replacement of fleets built in the 1970s.

There have also been increased orders for container vessels, which reflects the growth of international trade and the trend towards containerisation.

"The cycle of replacement demand has combined with reduced international capacity resulting from the numerous closures of yards in the 1980s," says Mr Lee, "and this has created a sharp rise in orders and prices."

According to Mr C.H. Cho, vice-president of sales at Hyundai Heavy Industries, a VLCC costing $40m in 1985 would now command a price of between $85m and $90m.

The first choice for shipping companies tends to be the Japanese yards, the combined capacity of which represents about 40 per cent of the world total. But the sheer weight of demand and the emphasis on quick delivery has prompted a diversion of orders to neighbouring Korean manufacturers.

There has also been strong demand from the Soviet Union, which placed orders totalling 1.98m tons in the year to the end of April.

The question is, of course, how long the boom years will last in such a notoriously cyclical industry. Most analysts expect that demand will continue to be strong at least until the middle of the decade. A report issued last week by Mitsui O.S.K., the large Japanese shipping company, forecast that moves towards the imposition of double hull and double bottom requirements on oil tankers and the increase in crude oil imports into the US would result in increased demand for tankers.

Mr Cho estimates that up to 60 per cent of the world's tanker fleet is more than 12 years old and will need replacing in the next five to 10 years. The market for container vessels is also expected to remain strong.

There are none the less a number of potential concerns for the Korean shipyards. The most immediate is the continuing threat of industrial disputes which have caused widespread disruption at most of Korea's shipyards over the past few years. So far this year, industrial relations have been relatively peaceful.

"Labour and management are becoming educated and we feel there has been a general improvement in the process of negotiations," says Mr Lee. But many analysts remain to be convinced that the current industrial peace represents a long-term prospect for Korea's industrial relations problems.

Korean shipyards, like many other Korean industries, find themselves sandwiched between the market leaders in and emerging competition from new lower-cost producers. Ships made in Korea are no longer cheaper than their Japanese counterparts because of rising domestic costs and the more attractive financing schemes available in Japan. At the same time, producers in countries such as China and Brazil are emerging as a potential challenge.

But there seems to be little immediate threat to Korea's position as the world's second-largest shipbuilding nation or to its 20 per cent share of the world market. Japanese yards are suffering from a shortage of skilled labour and are diversifying into higher-value-added industries.

At the other end of the scale, the emerging producers find it difficult to achieve the productivity and reliability of the Korean yards and their industrial infrastucture and supporting industries are generally less developed.

"Over the last four or five years shipowners have already been testing the new producers but have often been disappointed by delays in delivery and reliability," says Mr Ken Lee of Barings Securities in Seoul. None the less, Korean shipbuilders accept that new lower cost manufacturers will become more competitive.

Their response is likely to be similar to that of their Japanese counterparts which have diversified their activities and concentrated on the production of more sophisticated vessels.

Daewoo Shipbuilding will next year start to manufacture small passenger cars in collaboration with Suzuki of Japan. At Hyundai, productivity is being improved through the introduction of computer-aided design and new products are being introduced.

"We have already started to manufacture offshore oil drilling equipment and power generating plants," says Mr Cho. Research and development efforts are also being focused on the manufacture of new classes of vessels.

"At the moment we make everything except LNG (liquefied natural gas) carriers and cruisers," says Mr Lee. "But we expect to be making LNG carriers by the mid-1990s as the Korean Government expands its imports of LNG from Indonesia."

By that time, the current international shipbuilding boom may be drawing to an end. But with three or four years of improved profitability behind them, Korea's yards will be better placed to weather any storm.

Japanese PM admits his aide sold shares despite ban

By Stefan Wagstyl in Tokyo

MR Toshiki Kaifu, the Japanese Prime Minister, yesterday admitted that one of his aides had sold shares only days after his Cabinet last year agreed a ban on all stock dealing by ministers and senior officials.

The disclosure could harm Mr Kaifu's clean political image. Share dealing by politicians is frowned upon by the Japanese public because it is often associated with insider trading and other abuses.

Seeking to minimise the political damage, Mr Kaifu told reporters yesterday that he had known nothing about the transaction and apologised for having inadequately supervised the aide, Mr Mitsuo Ando.

According to Japanese newspapers, Mr Ando sold about Y30m ($194,800) worth of one stock and used the proceeds to buy shares in Meitec, a fast-growing computer software company. The holding is now worth about Y50m. Mr Ando told a press conference he had dealt on his own behalf.

A ban on stock dealing by senior government officials was one of the first measures agreed by Mr Kaifu's Cabinet shortly after its inauguration last August following the Recruit scandal. Ministers were required to entrust their holdings to fund managers.

● The Tokyo Stock Exchange's key Nikkei index fell 161 points on Monday, partly as a result of the Asahi story, Reuter adds from Tokyo.

In June 1989, the Recruit shares-for-favours scandal forced Prime Minister Noboru Takeshita to resign.

Mr Kaifu's popular support is now at the highest level for any prime minister since public opinion polling started in 1964, partly due to his clean image. World Stock Markets, Page 41

Sri Lanka declares war on Tigers

By Mervyn de Silva in Colombo

THE Sri Lankan Government declared total war yesterday on Tamil separatist guerrillas waging a week-old offensive which began with a spate of attacks on police and army bases in the north and east.

"We will annihilate the Liberation Tigers of Tamil Eelam, take over the east and then go for the north," Deputy Defence Minister Ranjan Wijeratne told parliament.

Speaking during a debate on extending a state of emergency for another month, Mr Wijeratne said 600 rebels had been killed since fighting broke out on June 11.

Departing from recent practice, the opposition abstained on the monthly extension of the emergency. It has always opposed the extension arguing that the emergency laws had led to gross human rights abuses, including harassment of the Government's critics.

Some MPs raised the possibility of a "national government" to meet the insurgency threat.

The Government yesterday asked for a supplementary vote of 5bn rupees ($128m) for the defence ministry in view of the "deteriorating security situation" in the Tamil north and east.

In the mid-November, budget, the defence vote was 10bn rupees, 10 per cent of total expenditure and about 5 per cent of GDP as compared to 1 per cent in 1983.

Sydney picks site for City of Future

By Kevin Brown in Sydney

PLANS for a high technology "City of the Future," being developed jointly by Japan and Australia, have moved a step closer to reality after a joint steering committee named the Gold Coast area of Queensland as the preferred site.

Mr Will Bailey, chairman of the committee, said the so-called Multifunction Polis (MFP), should be built on 4,700 hectares of mostly private land at Coomera, between the Gold Coast and Brisbane.

The committee said it preferred a single greenfield site for the city, rather than the multiplicity of sites proposed by bids from the states of New South Wales and Victoria.

However, the Queensland state government will have to move quickly to solve a dispute over land rights in the area if the Gold Coast proposal is to go ahead.

The committee set a deadline of June 21 for the land rights issue to be solved, warning that it would recommend an alternative greenfield site near Adelaide, South Australia, if the dispute was not solved in time.

The committee's final recommendation is expected to go before the federal cabinet early next month, when a further six-month feasibility study is expected to be approved.

The announcement prompted strong criticism from the Liberal/National Party coalition, which made the MFP an issue during the federal election in March when it suggested the city might become a "foreign enclave."

Mr Ian McLachlan, the Opposition spokesman on the issue, said the coalition "remains firmly opposed to the separate city concept."

Mr McLachlan said the city was likely to require government funding for infrastructure, and might not yield a benefit to Australia for 20 years.

"The implications for this for our foreign debt must be closely examined, together with the intention to compulsorily acquire, perhaps within six days, the rights to a large area of privately-owned land," he said.

The MFP is intended to benefit Australia by promoting technology transfer from Japan, increasing participation in the Asia/Pacific economy, and providing a showcase environment to build on perceived strengths in areas such as education, health and information services.

A feasibility study has concluded the city should have a population of between 100,000 and 200,000. Construction is scheduled to start by 1992.

Cambodian guerrillas 'success'

CAMBODIAN guerrillas said yesterday they had evacuated a strategic provincial capital hours after capturing it on Sunday, saying they feared for the safety of civilians, Reuter reports from Bangkok.

"Due to the large civilian population living in the city and for security reasons our forces evacuated and withdrew to the surrounding positions," said a statement by guerrilla forces loyal to former Cambodian leader Prince Norodom Sihanouk.

The guerrillas were battling government troops on the outskirts of Kompong Thom, a Sihanoukist spokesman said.

They had seized the town, 100km north of the capital Phnom Penh and the gateway to three northern provinces, at 8am on Sunday.

Different guerrilla reports indicated that a combined force of communist Khmer Rouge and two western-backed nationalist groups took part in Sunday's attack, a development which could fuel controversy over US support for the guerrilla alliance fighting the Vietnamese-backed Phnom Penh Government.

An earlier report on Khmer Rouge radio said the first assault was launched by Khmer Rouge and Sihanoukist forces.

Saddam threatens Israel for attacks on Arabs

By Victor Mallet, Middle East Correspondent

PRESIDENT Saddam Hussein of Iraq yesterday repeated his threat to attack Israel in response to any Israeli aggression against Iraq or the Arab world, but he denied suggestions that he wanted to launch a first strike. "We say we will strike them with all weapons we possess if they launch an aggression on Iraq and the Arabs," he said.

The message of last month's summit in Baghdad, according to Mr Saddam, was that "he who strikes the Arabs... will be hit by all of us, each according to his potential".

Western governments are likely to greet with dismay his latest declaration, made at an international conference of Moslems in Baghdad. They are already concerned about increased Middle East tensions following the resurgence of Iraq after the Gulf war and the creation of a hardline government in Israel this month.

Mr Saddam's implied threat to attack Israel if it attacks Arabs other than Iraqis is particularly disturbing; this could be taken to include Israeli assaults on the Palestinians in the occupied territories.

Yesterday President Saddam was critical of those who tolerate Israeli expansionism and was adamant about the need to defend the rights of Palestinians. "Palestine for Palestinians," he said. "Al-Quds (Jerusalem) is for us and not for the enemies of Islam."

Although there may be an element of bombast in Mr Saddam's threats against Israel, he has evidently decided to focus on the issue as a way of increasing his standing in the Arab world, while trying to make peace on his eastern borders by restarting the deadlocked peace talks with Iran.

Syria and Libya have contributed to the mood of tension in the Middle East in recent days. At the weekend Col Muammer Gadaffi, the Libyan leader, urged his people to build a nuclear bomb as soon as possible.

Officials from Iran and Iraq have begun talks to prepare for direct peace negotiations, Iran's President Ali Akbar Hashemi Rafsanjani said yesterday, Reuter reports from Nicosia. Irna, the official news agency, quoted Mr Rafsanjani as saying representatives from the two Gulf war foes were holding preparatory talks. President Saddam Hussein of Iraq had proposed a peace summit with Rafsanjani in letters last month. Iran gave a cautious welcome to the initiative but said lower-level talks had to be held first.

UK proposes two Saudi offset deals

By Victor Mallet

BRITAIN has made two new proposals for investment in Saudi Arabia as part of a £1bn offset programme linked to British defence sales, Mr Alan Thomas, head of export services at the Ministry of Defence, told a Confederation of British Industry conference in London yesterday.

DAF NV of Eindhoven, in association with British Aerospace – the main contractor for the Al-Yamamah defence project valued at more than £15bn – has offered to make part of its range of military and heavy duty trucks in Saudi Arabia.

DAF would provide the technology for the plant and plan for a gradual increase in local content.

Cooperheat International of Southport has proposed an expansion of its existing operations in Saudi Arabia by establishing a manufacturing and contracting joint venture to provide maintenance for the oil, gas and petrochemicals process industries in the Middle East.

Saudi Arabia has insisted on offset arrangements for big defence contracts with Britain, the US and France, and its western partners have had to go along with the idea.

The MoD declined to estimate the value of the lastest offset proposals. Ten proposals have been made so far, and British officials say the four which have already been approved are worth about £100m.

Pakistan's economy shows unexpected signs of good health

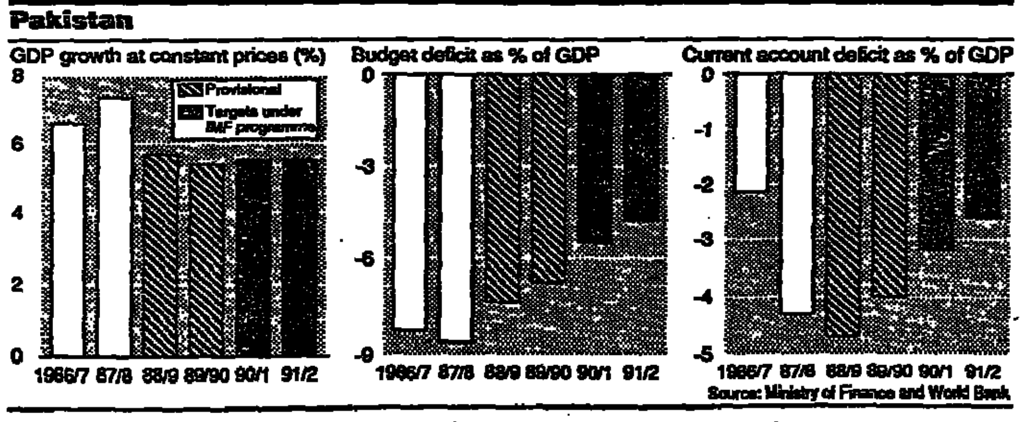
Despite ethnic violence and threats of war, key indicators have improved in the past two years, reports David Housego

IN A country so torn by violence as Pakistan, on the verge of war with India and with a government staggering from one crisis to the next, it comes as something of a surprise to a visitor to find that many of the key economic indicators look much better than two years ago.

The budget and the current account deficits have been brought down from levels that in the last months of President Zia ul-Haq's regime had drained the foreign exchange reserves to under three weeks of imports. Inflation should be under 8 per cent when the current financial year ends later this month. Private investment – particularly in housing and sectors such as textiles – is picking up from admittedly low levels.

Both the IMF, which recently had a mission in Pakistan, and the World Bank in its new report on the Pakistan economy, have been fairly complimentary over the Government's handling of macro-economic policy. The World Bank opens out the prospect that by the second half of this decade Pakistan may be able to take advantage again of long-term commercial borrowing and to attract more substantial foreign investment.

Pakistan



Source: Ministry of Finance and World Bank

The clouds on the horizon are the prospects of a war with India and continued ethnic violence in Sind province which contains Karachi and Hyderabad – two big industrial cities.

The Kashmir crisis killed all hope of cutting defence spending in real terms this year; it is set to rise again in 1991, according to the new budget presented last week. It was increased to 63.3bn rupees (£1.7bn) for 1990 compared with 52.2bn rupees last year.

Defence now represents 39 per cent of government current expenditure; the costs of trying to control law and order in Sind mean the total cost of security services now account for more than 50 per cent of the budget. A further 33 per cent of expenditure goes on servicing the 15.6bn rupees foreign debt maturities. This extra spending has forced reductions in funds for development and some social services, sectors which Prime Minister Benazir Bhutto was committed to expanding. Stocking of oil, rice and wheat has also limited the improvement in the balance of payments.

Another cloud has emerged in the opposition's charges of widespread corruption against Ms Bhutto's regime. In terms of economic management the most damaging is the alleged use of the financial institutions as a conduit for loans to friends and favourites of the administration.

None the less the opposition has been far less critical of the Government's overall handling of the economy than it has been of other issues. So far there has been no big outcry against the austerity measures that the IMF programme has implied. "People are beginning to realise this is the way improvement can be brought about," says Mr V.A. Jaffery, the economic adviser to the Prime Minister.

Before the budget, the Government encouraged the belief that it would be draconian. In fact it has not proved as harsh as expected.

Though the budget and current account deficits have narrowed, there have been slippages from the IMF targets. The budget deficit, which had reached 8.6 per cent of GDP, was due to come down to 6.3 per cent in the current financial year. But is more likely to work out at 6.7-7 per cent. Most of the reduction has come from squeezing current and development expenditures rather than from new tax revenues.

This year's exercise will be more difficult. The Government is committed under the IMF programme to bring the deficit down to 5.5 per cent, but will be hard put to do so.

The emphasis in the budget was on raising new revenues through widening the income tax base and introducing a new VAT-style sales tax. The Government has already taken some hard decisions in raising petroleum prices and reducing subsidies. But Mr Jaffery says last year's "austerity" squeeze on current spending cannot be maintained. Both defence and development expenditure are to rise in real terms.

The current account deficit has benefited from a favourable swing in the terms of trade and is expected to decline from $1.9bn in 1988-89 to $1.7bn this year. At 4 per cent of GDP, this falls just short of the revised IMF target for the year.

Tight monetary policy – in particular, the restriction of the Government's access to the Central Bank to finance the deficit – has helped bring inflation below 8 per cent. The explanation for this turnaround is that the decline in the foreign exchange reserves before President Zia's death had already forced Pakistan into seeking IMF support.

Ms Bhutto, on coming to power, endorsed the programme imposed by the IMF and the Bank, and has since implemented some of the unpopular decisions, including raising petrol prices and scaling down subsidies.

The tighter control of the last two years has meant a slowing down in the expansion of real GDP to below Pakistan's historic rate of 6 per cent a year. The economy is likely to grow by 5 per cent this year and slightly more next.

The Government has been slow in carrying through reforms in the financial sector and in extending privatisation. Mr Jaffery says it is committed in principle to privatising two commercial banks – one will probably be the Muslim Commercial Bank – and 11 industries. But these are plans still on the drawing board.

One of the Government's fears is that hasty privatisation could return the nationalised groups to the large industrial families who are the traditional political enemies of the Bhuttos.

Offsetting all these improvements however is the magnitude of problems still facing the country. The most intransigent is the large population growth rate (an average 3 per cent a year), which absorbs much of the increase in output. Also, in spite of the planned increase in development expenditure this year, far less is being invested in roads, power and irrigation than the country needs.

Kuwait acquits four of sedition

A Kuwaiti court yesterday acquitted four men accused of trying to overthrow the Government with bomb attacks which killed several people, the official Kuwait News Agency KUNA reported, Reuter reports from Kuwait.

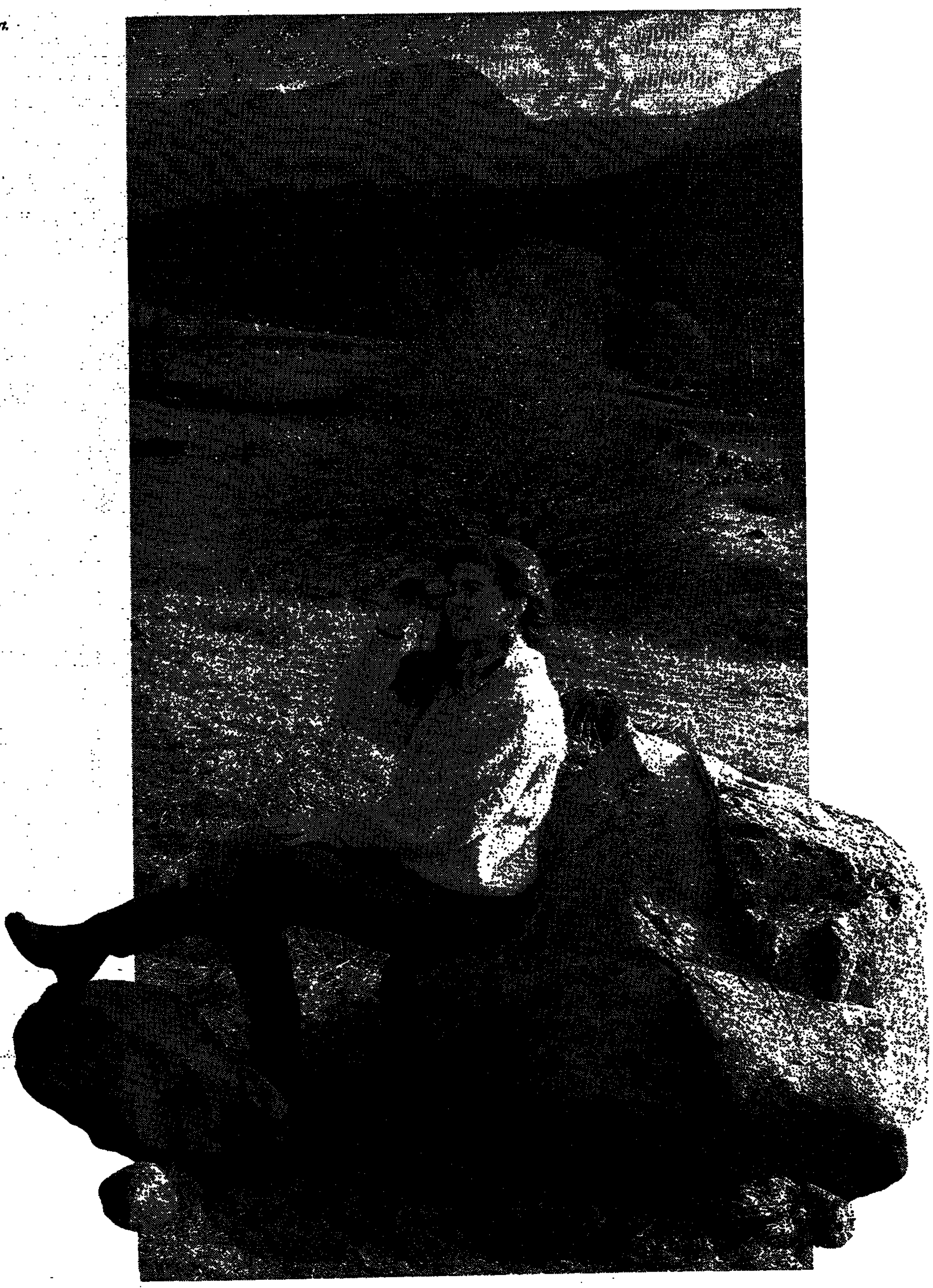
Prosecutors had demanded the death sentence for Sayed Mohammed Baqir al-Mosawi (alias al-Muhri), Faisal Abdul-Hadi al-Mehimeed, Walid Majid al-Mazeedi and Abdul-Hamid al-Saffar.

The four Kuwaitis, arrested last year, had also been charged with belonging to outlawed organisations aiming to topple the government, inciting sedition and illegal possession of arms and explosives.

Two officials from the London-based human rights group Amnesty International attended the trial, which opened on May 12 and resumed later behind closed doors.

Several bomb attacks have been reported in the oil-rich Arab state since 1983. The Emir of Kuwait, Sheikh Jaber al-Ahmed al-Sobah, escaped an assassination attempt in 1985.

Joan Appleton... An outdoor girl looking forward to more commuting comfort.



Every year, Joan Appleton spends three weeks underground.

As a sales attendant at a world famous West End store, Joan Appleton depends on London Underground to get her to and from work. She has to be there at nine o'clock sharp each morning. Six days a week.

It's almost an hour from her home in Epping, 40 kilometres north-east. In a year, that makes over three weeks of travel time. "That's life in this part of the world," she shrugs. "I'm basically an outdoor girl. I love fresh air and open spaces. But if I have to spend that much time underground, I'd like it to be as comfortable as possible."

As much as comfort, she and her fellow passengers also appreciate punctuality: trains that run on time and don't get stuck somewhere along the line. Which, as Joan will tell you, hasn't always been the case. Europe's largest urban population is served by the world's oldest metro system, and it sometimes shows.

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INTERNATIONAL NEWS

Sparkle on Indian diamond market dims

Gita Piramel reports on rough times, falling demand and hopes in a maturing market

"When the Diamond Trading Company (DTC) sneezes, Indian diamantaires catch cold," says Mr Kaushik Mehta, chairman of the Gem and Jewellery Export Promotion Council, the premier organisation of the Indian diamond exporters.

In the past few months, the London-based DTC, the marketing division of South Africa's De Beers, has been sneezing a lot. Reduced demand for high fashion jewellery from the US and Japan, and higher prices for rough stones are two major reasons for the DTC's sudden paroxysm.

Most affected are the small Indian diamond cutting and polishing units in the towns of Surat, Navsari and Palanpur in the western state of Gujarat. According to the council, nearly 500 small units, many of them located in Surat, have been forced to close.

Curiously, despite the downturn in the trade, the handful of bigger Indian companies who dominate the Indian diamond export trade, are doing record business.

Even more curiously, some are diversifying into the international high fashion jewellery market just when it appears to be contracting.

The trend is partly a reaction to the recent decision by the Indian Government to abolish the Gold (Control) Act. The act's draconian rules had made it a major obstacle in the manufacture and sale of gold jewellery.

"We were always a little afraid of the act. For even a minor carelessness, we could lose our prestige and in the diamond business, reputation is everything," said Mr Bharat Shah, a partner of B Vijaykumar, India's largest diamond exporter.

Last year Mr Shah started manufacturing jewellery for the first time in a modest factory just outside Bombay. "My target was Rs20m ($1.16m), but in the first few months itself I exported jewellery worth Rs80m. Today I have orders in hand worth Rs2bn. My problem now is shortage of space," said Mr Shah.

He welcomes the abolishing of the act "because now I can give out some of my orders to others on a job-work basis without fear."


Indian diamond workers use the traditional ganthi

Mr Shah's success – both in diamond polishing and in jewellery – is largely due to the fine craftsmanship of Indian artisans who can add sparkle to even the smallest and brownest of stones.

They can chisel industrial quality rough diamonds, which have been rejected by Israel and Belgium, into stones suitable for setting into popular fashion jewellery.

Moreover, in India, craftsmanship has a cheap price tag and wages are low. Skilled workers earn monthly incomes of Rs1,200-1,500.

Such salaries, which are marginally lower than industrial wages in larger Indian cities, are nowhere comparable to what similar artisans secure elsewhere in the world.

Over the past few years, Indian diamantaires have been cutting and polishing diamonds in increasingly larger volumes. In 1989-90, out of 95m carats of diamonds which were cut and polished all over the world, 59m carats were processed in India.

The burgeoning demand for their goods is encouraging several of the larger firms to invest in imported laser machinery in order to boost production. Nevertheless, the majority of artisans continue to use the traditional primitive "ganthi".

The importance of Indian diamantaires in the world market is reflected in the number of Indian companies who have been appointed sight-holders by the DTC. Out of a total of 200 sight-holders who attend DTC's monthly auctions in London, only one is Japanese compared to 40 Indian companies.

Manufacturing used to be their cutting edge. Gradually the Indian firms added marketing, establishing a global network with offices in Antwerp, London, New York and Hong Kong.

One unique aspect of this network is that in practically every case, each office is manned by a family member. Buying roughs in London, an Indian sends them to his brother in Bombay who after polishing them, forwards them to another brother in Antwerp, who in turn instructs cousins in New York and Hong Kong to sell them to jewellery manufacturers.

"This business demands personal attention and trust. Only your family can give both. I have remained a small diamond exporter because I do not have a brother whom I can send to live in Antwerp," laments Mr Mehta.

It is also a clannish network. Out of the 2,400 members of the Gem and Jewellery Export Promotion Council, less than 5 per cent do not belong to the Palanpuri Jain community – a small religious sect which traces its roots to the dusty village of Palanpur located on the borders of Gujarat and Rajasthan.

Significantly, seven groups dominate the trade, controlling nearly 25 per cent of all Indian diamond exports. All seven are Palanpuri Jains. With the expanding scales of operations, these groups are beginning to flex their muscle – to De Beers' growing dismay.

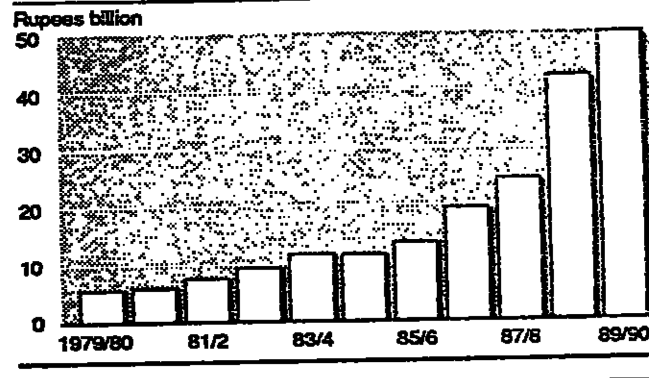
"Today, 62 per cent of the world's diamonds passes through Bombay. Naturally the DTC would not like to feel dependant on any one country. So it is trying to develop Thailand, China and Sri Lanka, where labour is almost as cheap as India, as new centres," said Mr Mehta.

At least one Indian Antwerp-based firm has already opened a cutting and polishing factory in Bangkok while two others are in the process of doing so.

As Mr Jayant Vora, a specialist in the insurance of diamond factories, says: "It is this attitude of finding a niche and burrowing into it which has created the Indian diamond export trade."

Their view is clearly that the clouds hanging over the market are temporary and do not dim the Indian diamond export trade's sparkle.

Export of polished diamonds from India



Lebanon's largest construction group closes

By Lara Marlowe in West Beirut

OGER-LIBAN, Lebanon's largest construction company, closed for business yesterday, leaving the country apparently without a company to repair its war-ravaged roads, buildings and water pipes.

Company records show that Oger-Liban removed 300,000 tonnes of dirt and debris from Beirut after the 1982 invasion. But the company had not fulfilled any contracts for nearly three years and most of its equipment has been stolen by militia groups.

Oger-liban was created by Mr Rafiq Hariri, the Lebanese-born Saudi multi-millionaire, after the 1982 Israeli invasion of Lebanon. Mr Hariri had taken over Oger Saudi Arabia and the French parent company in the early 1970s.

In 1983, Oger began rebuilding old downtown Beirut, the commercial centre of the city. But work there had to be abandoned because of renewed fighting in 1984.

Company officials stressed that the closure of Oger-Liban would not affect Mr Hariri's other businesses, which include the Mediterrannée investors group (capitalised at over $100m) and the Arab Universal Insurance Company.

Mr Hariri is also a major shareholder in the Saudi-Lebanese bank and Al-Saudi Bank Paris.

Throughout the 1980s, Oger was the main contractor in Lebanon for water and sewage pipes and road construction.

After the 1989 "war of liberation" and this year's inter-Christian war, Beirut is more than ever in need of reconstruction.

Mr Hariri provides 12,000 university scholarships to Lebanese students each year. While he is generally well-loved by Lebanon's Sunni Moslems, other groups in Lebanon allege that Mr Hariri is a conduit for Saudi money to strengthen the Lebanese Sunni community.

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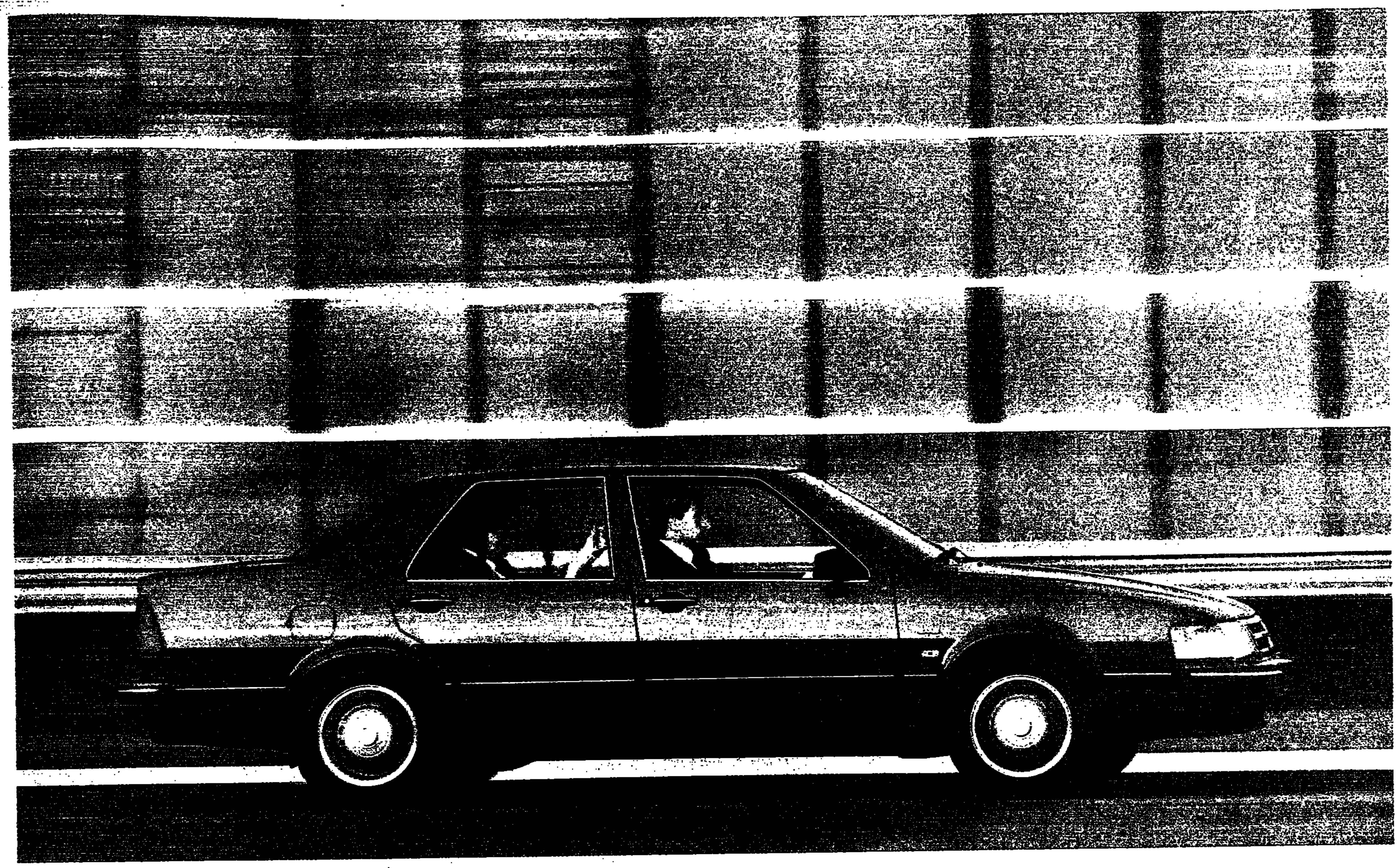

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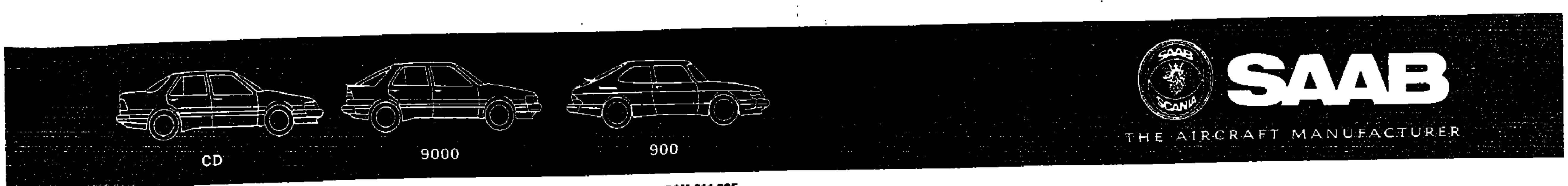

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Serious doubts over financial targets

Budget forecasts threatened by public borrowing

By Rachel Johnson

OFFICIAL figures yesterday revealed Britain's public finances were heavily in the red in May, cutting the Treasury's room for manoeuvre at the height of its summer spending negotiations with the Cabinet.

Yesterday's news of a £1.7bn borrowing requirement in May is likely to force the Treasury to scale back its target of a £7bn public sector surplus in 1990-1991, forecast only three months ago in the Budget.

The Treasury blamed – for the second month running – the high cost of implementing the poll tax and the new business rate for the unexpectedly high borrowing requirement for May. There were no privatisation proceeds last month, while resistance to the poll tax, and administrative problems in its collection, were also making the inflow of revenues to local government much slower than in previous years.

Although revenues from tax, customes and excise, and social security were all up on the month, the Government's total cash outlay in the first two months of the year was 23 per cent higher on the year, at £33.1bn.

Taking the first two months of the financial year together, the Government has borrowed £3.8bn, in stark contrast to this time last year when it managed a repayment of £700m.

This sharply higher rate of borrowing has awakened serious doubts in the City over the Government's ability to maintain its forecast surplus this year. In general, the City was expecting a much smaller borrowing requirement of about £750m in May – with some economists going so far as to predict that buoyant revenues would leave the Treasury with a small surplus.

● Britain's manufacturing output showed a modest recovery in the three months to end April, helping to keep the rise in unit labour costs below the growth of average earnings.

Renault wins part of £20m truck contract

By Kevin Done, Motor Industry Correspondent

RENAULT Truck Industries, the UK subsidiary of Renault Véhicules Industriels of France, and Reynolds Boughton have been awarded a £20m contract by the UK Ministry of Defence to supply 846 four wheel drive trucks.

The MoD also has an option to purchase an additional 160 vehicles, and both RTI and Reynolds Boughton are hopeful that the contract will lead to significant export orders.

The vehicle is based on the Renault 50 series, first launched in 1978. RTI will act as Reynolds Boughton's main sub-contractor.

Reynolds Boughton will supply its specially developed four wheel drive transmission package, axles and other component, and the trucks will be assembled by RTI at Dunstable.

Renault Truck Industries suffered a net loss of £7m last year compared with a loss of £1.5m in 1988.

● Rover is to launch a diesel version of its 800 executive car range using a 2.5 litre engine bought in from VM, the Italian diesel engine manufacturer.

The turbocharged, intercooled diesel 800 will be launched initially in France, Belgium, the Netherlands and Spain, and in Italy and in the UK in September. VM already supplies diesel engines for use in Rover's Range Rover vehicles, and a similar VM engine to the 800 version is used by the Fiat group.

Thatcher signals hard-line on controversial local taxation

By Ralph Atkins

THE PRIME Minister yesterday signalled her determination to take an increasingly hard-line stance in "capping" high spending local authorities and hinted at modifications to the controversial community charge, or poll tax, to help two-home owners.

The Government was being blamed for the community charge because it was allowing Labour council's to get away with excess spending, Mrs Margaret Thatcher said. It was the role of Parliament to stop "over-powering taxation on the citizen."

Her comments on BBC Radio Two's Jimmy Young show, came as a Cabinet committee continues to review changes to the community charge system amid considerable dispute between ministers

Mrs Thatcher is backing proposals for extending considerably powers to "charge-cap" those councils judged to be overspending. But the High Court's rejection last week of an appeal against capping this year by 19 local authorities would have given ammunition to ministers arguing that extra powers are not needed.

Government sources yesterday confirmed that legislation to amend the community charge system had not been ruled out for the next session of Parliament. They also said that the wide-ranging review was still considering suggestions as radical as local referendums for overspending councils.

In her interview, Mrs Thatcher rebuffed accusations that charge capping reduced local accountability, saying there was still an "enormous gap" between capped councils and more economical authorities.

She added: "We are criticised in some respects for not having bigger powers to charge cap because people say 'look don't let Labour have this big spending of other people's money'."

She said the Government had given local authorities too much discretion in a few areas – particularly in setting charges for those owning two homes.

Mrs Thatcher accepted that much of the blame for the community charge was falling on the Government but increasingly people were realising that it was local authorities which set charge levels.

"What they are saying to me is you always knew that Labour are big spenders of other people's money. . . Why did you let them do it?"

● Meanwhile Neil Kinnock, the Labour opposition leader, confidently predicted he would become Britain's next Prime Minister as he celebrated the anniversary of two of his greatest electoral triumphs.

A year ago Labour trounced the Conservatives in the European elections winning 45 seats, and 20 years ago Mr Kinnock first entered Parliament as MP for Bedwellty.

As the Labour leader met his Euro MPs at the London office at the European Parliament for one of his regular meetings with the group, he said last year's election result was the base on which Labour would build to win the next General election.

"A year ago we made huge gains in the European elections to become the biggest group in the European Parliament," he said.

"We can go on to repeat that success, and get an even better result at the next General Election.

"We took 40% of the vote in the European elections and in every election since then we have done better.

"We will continue to go from strength to strength and form the Government after the next General Election."

Secretary of the British Labour Group of MPs Alan Donnelly, Euro MP for Tyne and Wear, said the MPs were delighted with the help and liaison received from Mr Kinnock and the shadow Cabinet.

A shadow of the past that still falls across Wales

Anthony Moreton looks at plans to revitalise a deprived Welsh valley blighted by the death of coal

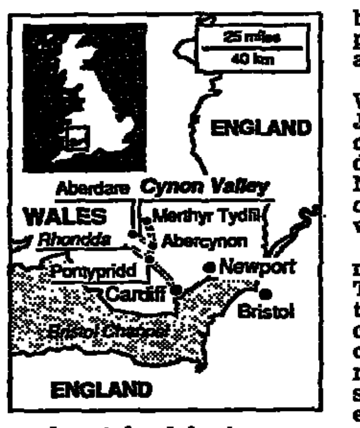
THE LEGACY of 150 years of coal mining has left the Cynon Valley as one of the most deprived parts of industrial South Wales. The unemployment rate is 13.4 per cent, just over twice the Welsh average, and income levels are among the lowest in the UK.

Now that mining has ceased, local businessmen and development agencies are trying to rejuvenate the valley. Although it is only one of a dozen valleys in South Wales whose main economic base has disappeared with the rundown of the coal industry, it has reacted more slowly to changed conditions and lagged well behind the economic uplift elsewhere.

A concentration of 19th-century housing with few 20th-century additions has resulted in the area having a higher proportion of houses without an inside lavatory or bathroom than elsewhere in Britain.

The economic situation is not altogether bleak. The area has attracted some well known companies. AB Electronics, Hitachi, Gooding-Sanken, Dunlop, Pirelli and Sheer Pride all have manufacturing operations in the area. But the incomers have never compensated fully for earlier works closures, which accounted for over 3,000 jobs in coal alone in the 1980s.

Now, under the chairmanship of Mr Ted Merrette, managing director of AB Electronics, the valley's largest employer, a forum has been set



up by 60 local businessmen who will preside over the launch of Business in the Community, whose task is to attract new employment.

This is not the first step along the path of economic rejuvenation. Two months ago the Welsh Development Agency launched a five-point regeneration package for the valley. It is seeking closer links between the public and private sectors which previously have been neglected in an area which has had a tradition of municipal socialism.

The agency is seeking to draw together public bodies such as the Wales Tourist Board, the Land Authority for Wales and Housing for Wales. It wants them to co-ordinate policies on issues such as the best use of land for development and put their weight behind a vigorous marketing programme to change the area's negative image.

"The biggest need," says WDA chairman Dr Gwyn Jones, "is to get all the agencies working together. We had done this very successfully in North Wales in Rhyl and if we can repeat it in Cynon Valley it will be a big step forward."

The catalyst behind all these moves was the arrival of Mr Tony Roberts as chief executive of Cynon Valley borough council on March 1. Mr Roberts came from the Rhondda, a neighbouring valley where similar problems had been so energetically attacked that the area is seen by many as an example of what can be done in unprepossessing circumstances.

Mr Roberts, who is the council's representative on the local Business in the Community leadership team, strongly believes that "for urban regeneration to be successful the broad brush approach is essential. If an area is to be improved jobs are certainly necessary. But it is not just a matter of jobs or finding the land on which new factories can be built. The quality of life also has to be improved and that means better housing, better healthcare facilities."

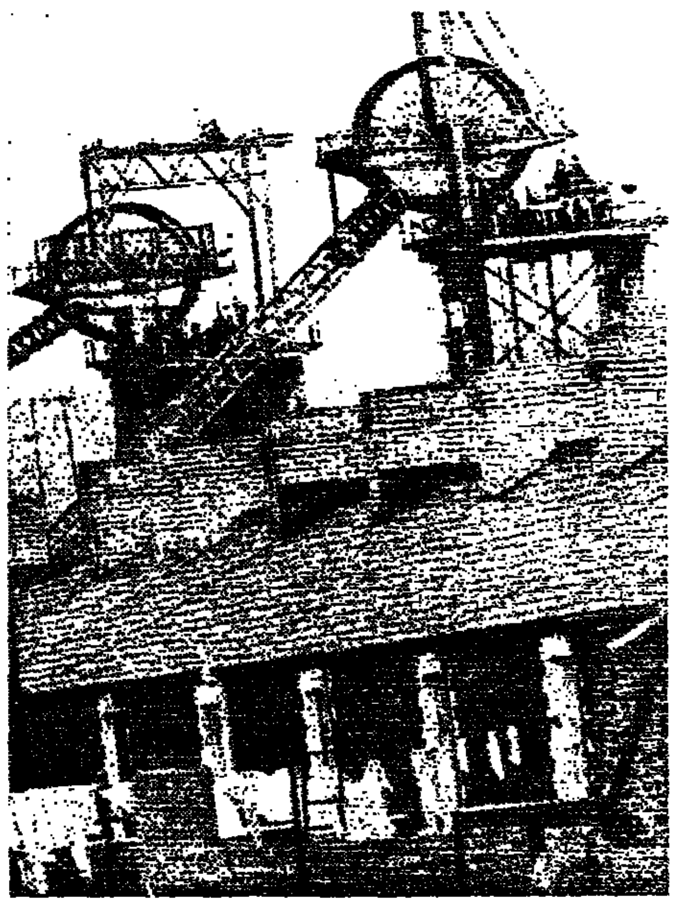
As a start towards the creation of a new image Mr Roberts commissioned a new logo, an orange sun over a green valley. A brochure outlining the valley's attractions – ample land, good supply of labour, modern factories, new housing, education and training, financial aid – was produced and aimed at the affluent but overcrowded south east of England. Some 5,500 companies in three counties received the mailshot which will be followed by one-day conferences in each county.

Mr Roberts says there have already been successes. Wimpey, Barrett, Balfour Beatty and the Cardiff-based Bailey Group are considering building private housing. The Cardiff-based Gooding Group chose Aberdare for its joint operation with the Japanese company Sanken Electric to produce switchboard power supplies and is looking at the possibility of further expansion, according to Mr Rene Ferber, group managing director.

"We want to undertake a skills audit, so that we know just what we have and what we can offer to a potential incomer. This is critically important if we are to succeed, says Mr Roberts."

But there are still obstacles along the path to regeneration. Earlier this year a leading employer, Coal Products, announced the closure of its Phurnacite plant with the loss of 350 jobs.

Despite this, Mr Roberts says, "Cynon Valley faces an exciting future. There is enormous potential here. What we have to do is to convince others of that potential."



Images of the past from the Welsh valleys: Abercynon in the heart of the Cynon Valley

Review ordered in Scotland of defence groups business and organisation

Loss of US contract hits GEC Ferranti

By James Buxton and David White

GEC Ferranti Defence Systems, the defence contractor, is to shed up to 550 jobs in Edinburgh, Scotland, partly as a result of the cancellation of a contract involving the US Air force.

The company, which employs about 6,000 people in plants in Edinburgh, said it was having to review its "business and its organisation" following the cancellation of a major overseas order and as a result of increased competition in the defence market.

Last autumn it embarked on a programme of early retirement and cuts in recruitment which involved the departure of 400 people from the company. That review is now being continued to produce more cuts.

The company is the former Ferranti Defence Systems which was acquired by GEC earlier this year for £310m as a rescue package for Ferranti International following its disastrous association with International Signal and Control.

It is understood that the cancelled contract was with an unnamed contractor to the US Air Force and involved the supply of pods containing laser equipment used to update the airborne defence systems of US aircraft. The contract was cancelled earlier this year because GEC Ferranti failed to meet the time schedule.

The contract, whose value is not being disclosed, was considered significant partly because it had been hoped that it would lead to other contracts involving the US Air Force.

A company spokesman said that the aim was to create a leaner company better able to compete in the shrinking defence market.

"Defence companies are getting hungrier and we hope that by doing this now we will be more successful in the future," he said. The review involved the way the company worked and its production systems as well as manpower reductions.

GEC Ferranti recently won the order to supply its EFR 90 radar system to the European Fighter Aircraft project. It believes that this contract, potentially worth between £1bn and £2bn, will secure the jobs of about 2,000 people into the next century.

However it is far from certain whether the European Fighter Aircraft will go ahead on the scale originally envisaged. Considerable opposition to the project remains in West German political circles.

Parliament told an extra £600m must be cut from £21bn planned spending

Inflation hits UK defence budget

By Michael Cassell, Political Correspondent

THE Ministry of Defence is being forced to secure spending cuts of more than £600m this year because of the impact of inflation on its £21bn annual budget, Mr Tom King, the Defence Secretary, revealed yesterday.

The decision means that, on top of extensive cost savings already being pursued, the government is scaling down plans to order more 50 Tornado strike and fighter aircraft.

The Royal Air Force, in a final order, had been due to take another 33 of the £20m aircraft, built by British Aerospace in co-operation with West Germany and Italy. A number of aircraft are expected to be cancelled, while the purchase of others could be delayed.

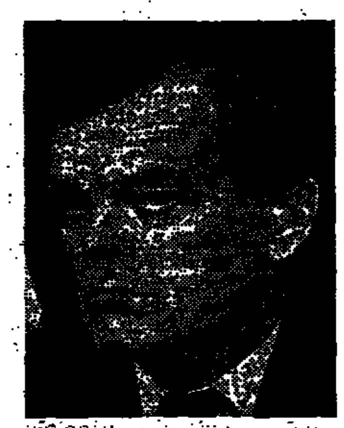
The decision is expected to have a significant impact on the BAe factory at Warton, Lancashire, with possible job losses. BAe supplies about 18 per cent of the aircraft's value and assembles the UK version.

In a move not directly connected with the longer-term review of defence requirements now underway within the government, Mr King told the Commons that the MoD had to achieve spending cuts this year of over three per cent in real terms, the largest for many years.

With defence costs rising by about eight per cent, against the five per cent allowed when the MoD budget was fixed in 1989, the ministry was already under orders to cut spending by £350m this year.

The present, temporary freeze on all defence procurement is likely to be lifted at the end of this month, although the ministry is stressing that all future procurement will be scrutinised more closely than ever.

The MoD did disclose yesterday, however, that it is to take the next steps towards production of the Rolls Royce-powered Westland EH101 anti-submarine helicopter for the Royal Navy. A contract for initial production should be placed next year.

Defence team: Mr Tom King and Mr Alan Clark

Mr King also denied reports of a policy rift with Mr Alan Clark, the Minister for Defence Procurement, over the scope for reducing British defences in response to events in eastern Europe.

He said opponents were attempting to "drive a wedge" between the two ministers but that both of them felt "singularly unwedged" about the speculation.

Mr King emphasised that the present MoD review of British defence requirements was seeking "a proper balance between the front-line and support". He re-emphasised, however, that Britain intended to retain its independent nuclear deterrent, including Polaris, Trident and associated frigates, submarines and minesweepers.

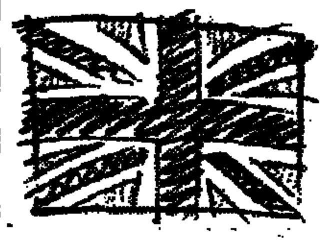
A consultation paper setting out the direction of the MoD's thinking on the defence review is expected to be circulated among ministers before the end of next month. Ministers expect to have agreed their approach by the end of the year.

Mr King also underlined the need for adequate forces to meet commitments outside Europe. These included not only the Falkland Islands,Cyprus,Gibraltar, Belize, Hong Kong and Brunei,but a capacity to respond appropriately "where circumstance demand".

Accepting that there was likely to be scope for changes and redeployment in Europe,he confirmed that the future of the four divisions in the British Army of the Rhine (BAOR) and RAF contingents in Germany were was being examined.

In what Mr Martin O'Neill, the Labour opposition's shadow defence spokesman, interpreted as a hint of cuts in the existing regimental system in the Army Mr King said "It is better we have reduced numbers of front-line units, reflecting changed commitments and risk of war, which are properly manned than to try to do too much".

BRITAIN IN BRIEF



M and S chief gets big pay rise

Lord Rayner, chairman of Marks and Spencer, the retailer, received a 46 per cent pay rise in the last financial year, taking his remuneration from £424,401 to £619,961, according to the group's accounts.

The group awarded its shop staff pay rises of up to 26 per cent, in March, but this was to cover a three-year period. Warehouse staff were not given an increase.

Lord Rayner's salary is still well below those of some leading industrials, such as Lord Hanson, who receives over £1m a year, and Sir Ralph Halpern, chairman of Burton, the retailer, who received £899,000 last year.

Airport joint venture

John Laing, the British construction company, has formed a joint venture with Lockheed the US aerospace group to explore opportunities for airport development around the world.

The two companies are already working together on the new Eurohub terminal at Birmingham international airport in the UK. The joint venture plans will exclude the US, said Laing.

Irish extradition controversy

Another row concerning the Irish Republic's extradition procedures appeared to be brewing over the case of Donna Maguire, the woman arrested by Belgium police at the weekend suspected of being part of an IRA unit operating on the Continent.

West Germany said that a request it had made last year to the Irish authorities for Ms Maguire's extradition had been turned down. Ms Maguire is wanted in connection with at least two IRA attacks in West Germany.

The Irish government gave no reason for its decision to turn down the German extradition request saying had been dealt with according to "appropriate procedures."

Backtracking on TV bill

The Government bowed again to critics of its broadcasting bill and announced that the new Independent Television Commission is to have the power to impose a two year moratorium on takeovers of commercial television companies and insist that there should be a national network.

Mr David Mellor, the Home Office minister responsible for broadcasting, said the Government planned to give the ITC, the body that will replace the Independent Broadcasting Authority later this year, the power to ban takeovers of Channel 3 and Channel 5 companies from the moment the licence is awarded until one year after the start of broadcasting.

CBI attacks government

Mr John Banham, director general of the Confederation of British Industry, launched a blistering attack on Britain's "apparent allergy" to strategic thinking on transport policy.

He said lack of planning and investment meant the UK was entering the 21st century with the worst transport infrastructure in Northern Europe, and was in danger of being left on the sidelines with the advent of the single European market in 1992.

Mr Banham was speaking in the wake of the Government's decision last week to throw out the latest proposals for a high-speed railway line between London and Channel Tunnel.

Insurance aims for Europe

Lloyd's of London, the insurance market, and Sun Alliance, the largest UK composite insurer, are to establish a joint venture to offer insurance cover to medium and large insurance risks in Europe.

The initiative, which will offer insurance protection of up to £145m for a risk at a single location, aims to take advantage of the European Community freedom of services directive which comes into force from July 1,1990.

The directive allows foreign companies to compete in each others' domestic market for medium and large scale commercial risk previously insured through national insurance companies.

Police blamed for violence

Supporters of individuals involved in London's anti-poll tax demonstration in March claimed to have amassed evidence that police brutality and disorganisation was the main cause of the violence.

The Trafalgar Square Defendants' Campaign claimed that police overreaction in the early stages of the demonstration led to "brutal violence" by police officers against demonstrators and a "clear break down in the chain of command."

The Metropolitan Police said its own investigation into the conduct of its officers was expected to be completed by August.

Post Office to increase prices

The Post Office is planning to increase postage prices by 2p on September 17. If assent is given by POUNC, a statutory body which monitors matters concerning the Post Office, the price of a first class letter would be 22p and second class 17p. The proposals also include price increases for heavier items and international mail.

The Post Office said that despite the proposed increases, the UK postal service was among the cheapest in Europe. It said the additional revenue would be used to finance its £1.3bn investment programme.

Sketchley posts £2m loss

Sketchley, the dry cleaning and vending group which earlier this year evaded two takeover attempts, yesterday reported annual pre-tax losses of £2m and a deeply discounted £20.6m rights issue.

The results, which the company described as "disastrous," compared with a £6m profit forecast which Sketchley made in March. Sketchley share price dropped 20p to 183p, giving the company a market capitalisation of £66m.

A multi-million Government housing plan aimed at clearing the streets of London of young people sleeping rough came under fire from voluntary organisations and local authorities as insufficient.

Mr Michael Spicer, the Housing Minister will announce a crash programme of emergency shelters offering basic facilities to homeless people, particularly those encamped in "cardboard city" around Waterloo.

The housing charity, Shelter, said that the measures appeared to involve "wasting short-term measures with no long-term solutions for what is a fundamental national crisis."

FT LAW REPORTS

Cargo owners lose indemnity claim

FANTI; PADRE ISLAND
House of Lords (Lord Keith of Kinkel, Lord Brandon of Oakbrook, Lord Ackner, Lord Goff of Chieveley; Lord Jauncey of Tullichettle): June 14 1990

A "PAY to be paid" clause in a P&I club contract imposes a condition precedent on a member shipowner to satisfy its liabilities on a cargo claim before it can acquire a right to indemnity from the club; and where the shipowner is wound up so that its rights against the club are statutorily transferred to the cargo owners, they cannot claim direct indemnity if, because of the shipowner's failure to discharge its liabilities, no right to indemnity ever came into existence.

The House of Lords so held when allowing appeals by two protection and indemnity (P&I) clubs, Newcastle Protection and Indemnity Association and West of England Shipowners Mutual Insurance Association (London) Ltd, from Court of Appeal decisions that they were liable to indemnify cargo owners, Firma C-Trade SA and Socony Mobil Oil Inc, for loss of cargoes carried on Fanti and Padre Island, ships owned and insured by P&I club members prior to their winding up.

Section 1(1) of the Third Parties (Rights against Insurers) Act 1930 provides: "Where . . . a [company] . . . is insured against liabilities to third parties . . . (b) . . . in the event of a winding-up order being made . . . if . . . liability . . . is incurred by the insured [its] rights against the insurer . . . shall . . . be transferred . . . to the third party to whom the liability was so incurred".

Section 1(3): "In so far as any contract . . . in respect of liability of the insured to third parties purports, whether directly or indirectly, to avoid the contract or to alter the rights of the parties thereunder upon [the winding up] . . . the contract shall be of no effect".

Section 1(4): "Upon a transfer . . . the insurer shall . . . be under the same liability to the third party as he would have been under to the insured . . ."

LORD BRANDON said that Fanti and Padre Island were entered in the P&I clubs by their owners.

The clubs' rules provided that members should be indemnified against cargo claims which they became liable to pay "and shall in fact have paid".

Cargo claims were asserted against the shipowners. Judgments were obtained against them but not satisfied. Both shipowners were subsequently ordered to be wound up.

The cargo owners instituted arbitration proceedings against the clubs claiming indemnity under the Third Parties (Rights against Insurers) Act 1930.

In *Fanti* the umpire awarded in favour of the club. Mr Justice Staughton allowed the cargo owner's appeal *[1987] 2 Lloyd's Rep 299*. In *Padre Island* the arbitrator awarded in favour of the club. Mr Justice Saville dismissed the cargo owners' appeal *[1987] 2 Lloyd's Rep 529*.

There was direct conflict between the two judgments. The Court of Appeal heard both appeals together *[1989] 1 Lloyd's Rep 239*. The club's appeal against Mr Justice Staughton's decision was dismissed. The cargo owner's appeal against Mr Justice Saville's decision was allowed.

Both clubs now appealed.

The first question was what rights did the shipowners have against the clubs immediately before the winding up orders?

On the ordinary and natural construction of the "pay to be paid" provisions in the club rules, payment by members to third parties was a condition precedent to payment by the clubs to members.

In the Court of Appeal it was argued for cargo owners that under equitable principles members were entitled to be indemnified as soon as the liabilities had been established, without any need to discharge them first.

Before the Supreme Court of Judicature Acts 1873 and 1875, at law the party to be indemnified under an ordinary indemnity contract had to discharge the liability himself first and then sue the indemnifier. In equity the indemnifier could be ordered to pay directly to the third party. Since the passing of those Acts the equitable remedy had prevailed over the remedy at law.

It was difficult to see how equity could disregard the express "pay to be paid" provisions in the clubs' rules. No authorities were cited which supported the contention. It was rightly rejected by the Court of Appeal.

The answer to the first question was that immediately before the shipowners were ordered to be wound up, they only had contingent rights against the clubs in respect of their liabilities to the cargo owners. The rights were contingent in that it was a condition precedent to indemnity that the liabilities should first have been discharged by the shipowners themselves.

The second question was whether the "pay to be paid" provisions purported, directly or indirectly, to avoid the contracts between members and clubs or to alter the parties' rights, on a winding up order being made, so as to render the provisions of no effect under section 1(3) of the 1930 Act.

The cargo owners contended that section 1(3) did render the "pay to be paid" provisions of no effect.

There were substantial difficulties in the way of that contention. The "pay to be paid" provisions did not apply only on the happening of a specified event such as a winding up order. They applied equally before and after such an event.

It was true that on winding up the member was likely to be prevented from discharging liability to a third party and so be unable to obtain indemnity. That situation did not, however, result directly or indirectly from alteration of rights under the contract of insurance. It resulted from the member's inability, by reason of insolvency, to exercise those rights.

Mr Justice Saville and the Court of Appeal rightly rejected the cargo owners' argument based on section 1(3).

The answer to the second question was that the "pay to be paid" provisions did not purport directly or indirectly to avoid the P&I contracts or alter the parties' rights upon the shipowners being ordered to be wound up.

The third question was what rights against the clubs were transferred from members to third parties upon the members' winding up?

There were two views. The first, taken by Mr Justice Staughton and the Court of Appeal, was that rights to indemnity were transferred to third parties, subject to condition precedent that they first paid themselves the amounts of the members' liabilities to them; that the condition precedent was impossible to satisfy so that it became ineffective or inapplicable, because a person could not pay himself; and that as a result the rights transferred were accrued rights to indemnity.

The second view, taken by Mr Justice Saville, was that the members had no accrued rights to indemnity because they had not satisfied the condition precedent; better or larger rights than those previously possessed by the members could not be transferred to third parties; therefore, no accrued rights to indemnity were transferred.

The second view was preferred.

It was clear from the express terms of the 1930 Act that the legislature never intended (except in section 1(3) which did not apply to "pay to be paid" provisions) to put a third party in a better position as against an insurer than that of the insured himself.

The effect of section 1(1) and 1(4) was that in a case where the insurer would have had a good defence to a claim by the insured before the statutory transfer of his rights to the third party, the insurer would have the same good defence to a claim made by the third party after transfer.

It was not in doubt that the clubs would have had good defences to indemnity claims by the shipowners before they were ordered to be wound up, on the ground that the condition precedent had not been satisfied.

It must follow that the clubs had the same good defences to indemnity claims made by the cargo owners after the shipowners were ordered to be wound up.

The club's appeals should be allowed in both cases.

Their Lordships agreed. Lord Goff gave a concurring judgment.

For Newcastle: Richard Aikens QC and Jonathan Hirst (Ince & Co)
For Firma C-Trade: Anthony Clarke QC and Nicholas Hamblen (Clyde & Co)
For West of England: Stewart Boyd QC and Graham Dunning (Holman Fenwick & Willan)
For Socony: Jonathan Sumption QC and Andrew Popplewell (Allen & Overy)

Rachel Davies
Barrister

MANAGEMENT: The Growing Business

Public procurement

Why EC efforts face a variety of hurdles

Lucy Kellaway on the outlook for smaller companies

At the Glasgow Royal Infirmary they eat boeuf bourguignon rather than haggis. In public gardens in England many tulips bloom. In Danish kindergartens the children sit on German chairs. All are examples of small and medium-sized companies that have broken into public procurement markets in Europe: a Dutch landscape gardener, a French caterer and a German educational supplier have overcome a host of obstacles and won contracts from state-owned foreign buyers.

Yet these success stories are the exceptions that prove the rule: small and medium-sized companies are virtually nowhere in the public procurement market at home, and even less successful in other European countries. Only in France, where the Government encourages public buyers to choose smaller businesses, do companies employing fewer than 500 people get a reasonable slice of the business. But even the 30 per cent of the French market that SMEs Small and Medium sized enterprises have is low. Small companies make up 70 per cent of EC employment in manufacturing and services.

The French record is also well below that of the US, where small enterprises are protected by quotas, price preferences and a whole series of other incentives to make sure they participate. In Japan, SMEs also get a large slice of the public buying market thanks to its well developed network of subcontractors.

Such comparisons are increasingly worrying the Commission. It fears that its efforts to open up the European market in procurement will be largely wasted unless flexible small businesses are given a role to play. To make matters worse, the recent initiative to break the national buying patterns may actually hurt smaller firms, both as a result of the extra formalities created by the new rules, and by the intensified competition from non-national heavyweights.

In correcting the imbalance, the Commission is faced with a serious problem. To start giving small European companies the kind of preference granted in the US would be against the Treaty of Rome, and against the whole spirit of 1992.

There are scores of reasons for the slim participation in public orders by the SMEs. First, many of the contracts may be too big for them to bid for alone. They may not get to hear of the ones to which they would be suited. They may be disqualified by the bidder for being insufficiently secure financially. The process of bidding may be too cumbersome and too expensive. And even if they actually succeed in getting the business they may be paid so late as to make it scarcely worth their while.

In an attempt to tackle some of these problems, the Commission has just approved a paper containing a dozen or so initiatives to be taken by Brussels, by member states, by buyers and by the small companies themselves. The aim is to find a way of giving smaller companies a better chance, without discriminating against big suppliers, or involving the buyers in any greater cost.

For some very large contacts it may be right and proper that SMEs play a limited role. For others, the commission has made two suggestions: to divide up the contracts to bring them down to the capacity of the SMEs, and to encourage SMEs to pool resources and bid for the contracts together. In the first case the contracts could be split into lots so that small firms bidding for a lot would have to match the proportionate prices offered by larger enterprises for the full contract.

As far as the second suggestion goes, the Community has a variety of schemes in place to encourage companies to get together, through marriage bureau networks, joint research projects and by establishing a favourable legal company structure known as the European Economic Interest Grouping.

So far the success of these has been mixed, and for the time being there is nothing further that the commission feels it can do, short of calling on member states to make sure that they tidy up all their own legal and fiscal uncertainties.

For smaller concerns it is the small contracts that fall below the thresholds (ecu5m for works; ecu200,000 for supplies), which are likely to interest them most. The commission encourages buyers to place free advertisements for these offers in the Official Journal.

A further problem met by SMEs is that they frequently do not meet the minimum standards of financial stability demanded by the buyer. The commission has called on the buyers to question whether their demands are strictly necessary – and has said a study is needed to examine how companies should be assessed, and allow SMEs to improve themselves so as to qualify. In addition, the commission is encouraging companies to develop new systems to protect both sides from default in a way that does not discriminate against smaller companies. Guarantees in the form of performance bonds, of the sort being introduced in Italy, are one option.

Just as important a barrier is the actual or perceived administrative cost and complexity of bidding. The commission recognises that in many countries the procedures are unnecessarily cumbersome, and is trying to persuade buyers to simplify and standardise their forms and perhaps to give bidders a longer time to prepare their bids.

A big challenge is information – or rather lack of it – of which contracts are available. The commission is trying to get as many contracts as possible onto its computer data base and encourage private firms to use and retransmit this information efficiently. The network of Euro Info Centres is to be expanded to help keep SMEs informed of potential business, especially in other member states.

As for late payment, the Commission has done a study into the damaging effects of EC legislation on SMEs and is shortly to produce its ideas on the matter. The problem with most of these initiatives is that they involve the goodwill of the public buyers, many of whom are already critical of the strains placed on them by the opening of the new EC procurement directives, and may resist further voluntary changes.

A still more important barrier may prove to be the pessimistic view of many of the SMEs that nothing will really change.

To change this attitude, the commission is providing financial help for public procurement fairs so that SMEs can meet purchasing bodies, for seminars and conferences, and for practical manuals and training courses on how to sell to the public sector and how to deal with its bureaucracy.

Its experience so far shows just how much remains to be done. At the first major procurement fair, held in London's Queen Elizabeth Hall in April, one of the conclusions was that small companies were essential to public procurement. The message, however, fell largely on the wrong ears: a disappointingly small number of the invited SMEs bothered to turn up.

Quality is assured in the enterprise

National quality control has reached Britain's enterprise agencies, with one already awarded a BS5750 certificate and another having gained a new type of accreditation charter being pioneered by Business in the Community (BiC), the agencies' umbrella body.

The idea of agencies giving quality assurances is being taken seriously by the clearing banks, most of which have already agreed to back BiC's scheme.

Self-interest is involved: the banks are the main suppliers of working capital to small businesses, while the agencies are one of the main suppliers of counselling services. If the quality of the counselling is assured, the banks can trust the agencies' evaluations of the business plans brought to them by small businesses.

"It is also going to help us sell our services to the Training and Enterprise Councils (Tecs), as well as reassuring our sponsors," says Brian Crangle, chief executive of DonBAC, the Doncaster agency which has kept up its image as one of Britain's more enterprising ones by getting BS5750 approval from the British Standards Institution.

The institution checked the agency's counselling manuals and procedures for consistency and quality, and then, for a fee of £2,500, registered DonBAC as a quality assured organisation.

"BS5750 is Britain's main instrument of quality assurance," Crangle says. "Most of our sponsors use and understand it."

The advent of the Tecs also motivated him. He believes quality assurance will help the agencies sell their services in training for enterprise via courses, seminars and consultancy to the Tecs.

DonBAC was able to satisfy the BSI's rigorous standards because it had Eric Marshall on secondment to pilot the agency through the whole process. Marshall was, until its closure, the quality assurance manager for British Rail's engineering works in Doncaster. DonBAC has its BSI joining fee paid for by sponsor John Carr, a member company of The Rugby Group, and has not had to use its own funds.

The agency is now selling its manuals at £250 a time, with a free day's consultancy from Marshall, to help any other agency which wants to follow the BS5750 route.

He admits that any agencies may then baulk at a £2,500 joining fee, but says that talks are in hand on possible volume discounts if enough of Britain's 300-strong network of agencies apply.

Not everyone is happy with DonBAC's taking the initiative over BS5750, however, in case it causes confusion with BiC's own quality accreditation charter. "Theirs is a gold-card route that some agencies may not need," says Tim Walby of BiC.

"Counselling is the central and critical thing with every agency," Walby says. "If you get that wrong, then everything else is wrong. Our charter is pretty basic stuff, but it is trying to set common standards through the country."

Despite their still having some way to go to prove themselves, the Tecs have galvanised BiC and the agencies to get the agencies into a securely founded network, plugging any patches of weakness and inconsistency.

The charter promises small businesses a combination of competence and ethical practice, with monitoring of the performance and capabilities of counsellors, as well as the agency itself. It also embodies a need for appropriate guarantees of professional indemnity insurance.

Standards will be checked by assessors, such as large firms of accountants, who will basically carry out a non-financial audit of what any agency can do and how well and consistently it does it from case to case, as well as compared with its counterparts.

The agencies will pay £250, with the balance of professional fees involved provided by the clearing banks backing the scheme. Each BiC regional director will also make a general assessment of each local agency in his or her area.

Half a dozen have already been visited, but North Derbyshire Enterprise Agency has won the race to be first accredited. However, Mike Horner, the chief executive, is now wondering whether the charter will be enough for Tecs, sponsors and clients.

He has bought DonBAC's manuals and consulted Marshall and hopes soon to get a secondee from the Government's Training Agency to ensure that systems are good enough to earn a BS5750 certificate.

So is it necessary to run both schemes? Walby thinks that the charter may well provide a workable first step by many agencies, providing them with a route, eventually, to BS5750.

Ian Hamilton Fazey

In brief. . .

■ A wealth of recent legislation has meant that there are more than 250 statutes governing the daily life of directors and that the penalties for innocent mistakes as well as for wrongdoing have become tougher. The latest version of Guidelines for Directors*, published by the Institute of Directors, provides advice on how to avoid the pitfalls.

The new version – about 100,000 copies have been sold since the first edition was published in 1973 – incorporates the changes introduced by the 1989 Companies Act, including directors' increased responsibility for the content and accuracy of company accounts.

As well as providing a legal guide the book recommends good practice in areas where the law does not reach. It is intended for new directors as well as existing directors who need a quick reference to legal obligations.

** From Book Department, Director Publications, Mountbarrow House, Elizabeth Street, London SW1. 134 pages. £15.45 inc p&p.*

■ Fewer people are now forced to consider self-employment because they have been made redundant than was the case in the early 1980s but losing your job is still a factor for a significant minority.

To help people in this situation a booklet*, Life after Redundancy – New Opportunities from Industrial Change, has been produced by Business in the Community, the umbrella organisation for enterprise agencies.

The booklet provides information on Employee Share Ownership Schemes, management and employee buy-outs, co-operatives with case histories of successful ventures.

Employees seeking to revive a business which their former employer has closed down, for example, will need to ask the former employer a number of questions.

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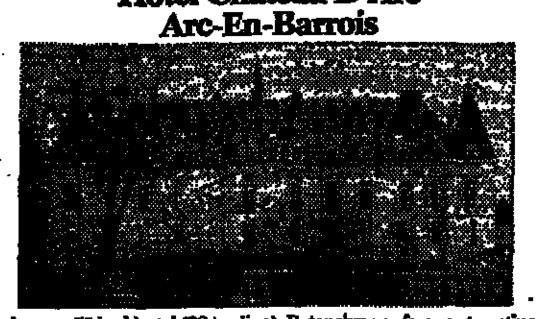

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

ARTS

London Symphony

BARBICAN HALL

There is no confrontation between piano and orchestra in Beethoven's "Emperor" Concerto, nor even much divergence of paths; they co-operate amicably, taking turns at displaying their very grand material. That is unusual, and in later Romantic concerti almost unheard-of. An exception which comes to mind is the Piano Concerto of old Balakirev (itself, sadly, almost unheard-of), in which again the piano is simply an heroic partner for the orchestra. While we wait for Hamish Milne or Gordon Fergus-Thompson to try it on with a London orchestra (since Russian performers are so neglectful of their great ancestor), there is other Balakirev that needs reviving: notably his First Symphony – which shared Sunday's LSO programme with the "Emperor" in perfect amity.

Both works drew the best from the conductor Jeffrey Tate, and the Beethoven found him in seamless collaboration with the pianist Barry Douglas. The "Emperor" gives no quarter to quirky inspirations (which is why most musicians prefer the earlier Fourth Concerto, or even the Third), but it demands ringing authority and breadth. Douglas supplied those in satisfying measure – confidently shaped and forward, vital without hectoring, a rich variety of touch but no brilliant preening. Just so, Tate kept the opening Allegro properly dignified but also lithe and purposeful, and he sustained the speaking phrases of the Adagio in one long trajectory: masterly, I thought.

After that splendid performance, the Balakirev Symphony might have dwindled into a period-national exhibit. Despite its panoply of colour, it isn't truly "symphonic" in the Austro-German sense at all (Balakirev distrusted that whole tradition) – no unfolding development, no thematic argument; and yet it is an original triumph of mosaic-style invention. Parsimoniously, it generates sumptuous patterns from a few musical cells which proclaim their roots in Slavic *folksong and dance*, and a few sideslipping cadences in Balakirev's special harmonic idiom. It rises to blazing climaxes which are dictated by the architectural plan, not explosions of subjective feeling.

Tate had it superbly in hand. Where Russian conductors tend to plug the flashiest moments hard, he gave continuous attention to *Balakirev's real musical* mechanism, which has the fascination of an ultra-cunning device (rebounding echoes as in sharp table-tennis). None of Balakirev's idols – Glinka, Liszt, Berlioz, Schumann – had pushed that technique quite so far. As controlled monothematic fantasy goes, it is no great step from Balakirev to Skryabin, or even to "serial" Schoenberg and Webern. But the elements of Balakirev's plan include haunting *tunes*, too; and Tate gave those full value, with an inspired contribution by Andrew Marriner's clarinet in the Adagio. If Balakirev's music is too old-fashioned and transparent to invite deep *pondering*, it is a marvellous tonic when it crops up at decent intervals.

David Murray

If you go down to the woods today..

William Packer reviews the work of David Nash at the Serpentine Gallery

The British sculptor, David Nash, now, at 45, in flourishing mid-career, returns to the Serpentine Gallery (Kensington Gardens W2, until July 21, then on to Cardiff and Edinburgh: sponsored by Romulus Construction), where some 14 years ago he made his effective London debut. Then he was but one of four artists in one of that long remembered and still much missed series of Serpentine Summer Shows, dedicated to putting the work of the promising young to the judgement of a metropolitan public. To look back on what I wrote on this page at the time is to mark not only how much Nash's work remains the same, in its material in substance and imaginative preoccupations, but also how much it has come on.

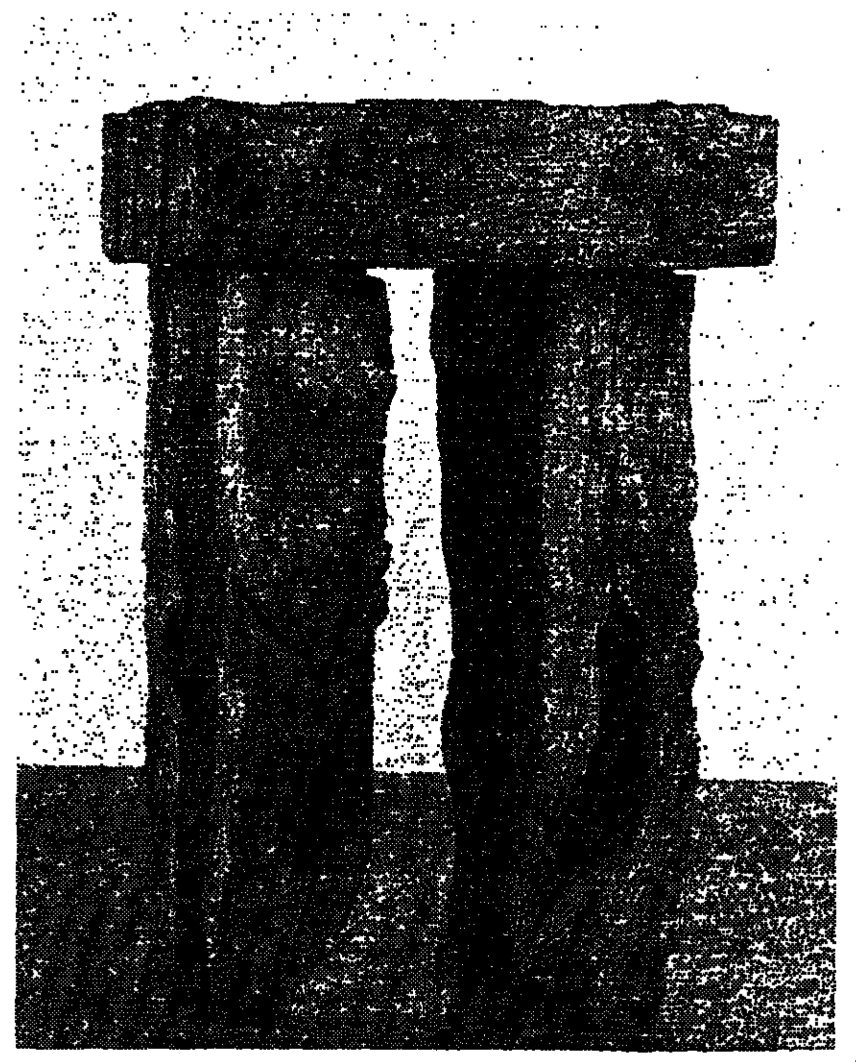
I must say at once that the misgivings I then expressed have long since been dispelled, that even then seemed more a function of his active qualities as an artist than any positive fault, to be worked through rather than corrected – which is exactly what Nash has since done, without the least compromise to his essential vision. "He uses wood throughout, which he hews and splits and chops to serve practical rather than aesthetical ends, or so it seems at first," to which I would now only add that he also burns and reduces to charcoal. "Everything is robustly healthy and pioneering . . . Nothing is at all useful . . . but the sense is of use long forgotten, mysterious, arcane."

Then came the rub, or what I called the safety-catch, for I felt that what such stuff required of us was "a sophisticated double-take, (a reading of) such directness as refinement, ambiguity as poetry, simplicity as purity. And wood is so beautiful and seductive a material that we are able to comply. Nature really is wonderful, and Nash . . . knows he can hardly go wrong with her . . . it is a pity that such preciousness, amounting almost to affectation, should take the edge off what is, in so many other respects, a strong, witty and truly original vision."

Well, all I can say is that I stand now by all but one word of that: I withdraw the imputation of "affectation" unreservedly, and as for that "preciousness," the only and crucial difference is that I no longer mind. Nash's preciousness, which manifests itself as an active celebration of natural material, processes and circumstances for their own sake, actually works as an active imaginative quality in his sculpture, and I now see that it always has. For this show, small and narrowly selected though it is, is a retrospective that takes us back well beyond 1976, to the early 1970s and his first year or two out of Chelsea School of Art.

The large "Table with Cubes" of 1971 that, so a friend remarked, looks as though made to a drawing by Glen Baxter, stands clearly as antecedent of the even larger "Ancient Table" of 1983, worn and weathered as if long buried in the ruins of the castle of a race of giants. Just so the "Three Clams on a Rack" of 1974 prefigures the "Bowls" and "Platters" and "Spoons" of 1988, all set on their simple stands, or even the five simple fired and carbonised elements of the "Threshold Column" of 1990, that commands the first and principal gallery. The difference between the early and the late lies only in the freedom and confidence with which Nash works his surfaces – the freedom that comes with long experience and practical understanding, the confidence to leave off when just enough is done, and the innate monumentality of the work to speak for itself as art. His gift is to see the image in the mass and the working of the wood, and to discover and express it with direct and natural simplicity.

My one regret is that no place could be found at the Serpentine, that most sylvan of any city's galleries, for anything of Nash's work in the great outdoors, he the most unself-consciously bucolic of sculptors. The reason is plain, for such work is delicate, intimate and naturally inviting to any self-respecting vandal. Looking especially at so much of his work of the last 10 years or so, the hollow longboats with their atavistic thoughts of "the old grey Widow-maker," the stoves and fires and the strange, simple, charred monuments that emerge from the process, black as night, I think immediately of his low black dome set in its secluded hollow in the Forest of Dean.



'Ancient Table,' 1983

It could hardly be simpler in its realisation, a concentric system of charred stakes, stumps really, rising gently to the centre. And there it sits beneath the trees, blanketed now in moss and fallen leaves and rotting quietly, being slowly reclaimed by Nature herself with every turn of the seasons. That a cult of Nature should capture the imagination of several sculptors of Nash's vintage, now variously come to maturity, is not in itself surprising. Reacting against the conventional formalist abstraction of the 1960s, they were yet not altogether persuaded by minimalism and a certain romanticism was irresistible. But where Nash distinguishes himself from the likes of Richard Long and Hamish Fulton, Roger Ackling and Andy Goldsworthy, is in his thorough-going commitment to sculpture not as an intervention, interruption or suggestion in the processes nature, to be taken or left, but as the making and presentation of objects integral to themselves.

His works may grow or change with time – he is fascinated by the gardener's processes of training and grafting – they may provoke thoughts and possibilities beyond themselves, but they are there to be taken in formal terms just as they are. There is no separation of activities, no going on walks to propose the walk itself a work of art, no documentation offered as work of art simply because nothing is left to show of the work itself, no making of a talisman as record of the particular moment: all comes together, indoors and out, no matter that you may have to go to the Forest, or up the mountain, to see for yourself. All is one.

The truth behind the art of Shostakovich

THE NEW SHOSTAKOVICH
by Ian McDonald
Fourth Estate £18.95, 339 pages

Gorbachev and *glasnost* arrived too late for Shostakovich. When he died in 1975, Brezhnev's régime was still moving towards its point of maximum torpor, and the future for Soviet artists must have seemed as bleak then as it had done at any point since the death of Stalin. Shostakovich was buried by the state as "a faithful son of the Communist Party," and that remained the received view in the West: that after coming to heel in the 1930s with his Fifth Symphony and being humiliated again after World War II he had learned to tailor his art to demands of the political system.

It was the publication in 1979 of the infamous *Testimony*, Shostakovich's "memoirs" supposedly as dictated to the emigré journalist Solomon Volkov, that jolted these perceptions. It portrayed the composer as an embittered opponent of Soviet Communism, deeply scarred by the oppression heaped upon him and his circle for half a century, and who had encoded in his music a savage critique of his life.

It was easy enough for musicologists of West and East to disprove the letter of Volkov's work, to show that some parts at least of *Testimony* had been artfully compiled from previously published articles and interviews. While Volkov certainly had access to the composer during the final years of his life, only a portion of the book could possibly have been verbatim transcripts.

Yet the tone rang true; as Ian McDonald observes near the end of this fascinating study, *Testimony* is a realistic picture of Dmitri Shostakovich. It just isn't a *genuine* one. That is McDonald's starting point. *The New Shostakovich* sets out to chronicle the composer's life and to show how Shostakovich's antipathy to Communism was evident probably throughout his adulthood (certainly in place before the death of Lenin) and how he gradually learned to control and channel that hatred in his music.

As a portrait of a creative artist tormented and harried by the random assaults of Stalinism it is compelling; the cultural revolution instigated in the USSR in the late 1920s was as vindictive and unreasoning as anything perpetrated in China 40 years later. McDonald presents a detailed account of its madnesses, placing Shostakovich's predicament in the context of all the arts, and alongside Akhmatova and Pasternak, Eisenstein and Zamyatin; Shostakovich was a lucky one; Mandelstam and Meyerhold for instance, were not.

And as Shostakovich's resistance becomes embedded further and further into his music, so McDonald follows him, taking his cue from the celebrated passage in *Testimony* where it is revealed that the finale of the Fifth Symphony is not the triumph of Socialist optimism in the "making of man" that the *apparatchiks* of 1937 were happy to accept but an image of forced gaiety. He goes too far in this programmatic mapping, I think; every major work is given a precision of extra-musical detail that conveys the impression that Shostakovich was concerned only with composing coded satires, as if his more generalised musical weapons of irony and satire had lost their cutting edge. A work like the Eighth Symphony is made to seem a commentary on Stalinism as literal and detailed as, say, Bulgakov's *The Master and Margarita*; everything has to signify something, and musical architecture must be made to serve that message.

Shostakovich emerges as a brave, unforgiving adversary, constantly *railing against* his oppressors, but far from enhancing his stature as a symphonist McDonald's treatment sometimes threatens to reduce his art to that of the pictorialist; a pictorialist obliged to work in an arcane code certainly, but still one paradoxically who put his own brand of propaganda first. That cannot be accurate, and *The New Shostakovich* emphasises those works in which its method can be most convincingly applied – and all this, it is worth pointing out, without any exemplars from the composer's own lips. In the case of the 20th century's other great musical encryptor, Alban Berg, there is at least documentary proof of his methods; nothing of the kind exists for Shostakovich.

McDonald reserves his final act of decipherment for the web of quotations and allusions that makes up the Fifteenth Symphony, yet he mentions its predecessor only in passing. For many, Shostakovich's Fourteenth is one of his unalloyed masterpieces, in which language and expression are pared down to their searing essentials. It is though an entirely personal work, concerned with Shostakovich's own fears and premonitions of death, and internalised creative processes are not McDonald's concern. There are passages in which the composer seems to be taken as a useful image with which to berate an unacceptable political creed, and after the measured narrative of the main body of the book the author finally unloads his prejudices in a wide-ranging postlude.

To be a Western music critic of "left-liberal" tendencies would seem to be the worst of all crimes in McDonald's eyes, while to be a commentator who shares "the tendency of twentieth-century music to emphasise form over content" would also be a disqualification from perceiving the truth behind Shostakovich's art. Yet before we all creep away in shamed silence, it might be worth pointing out that his musical stature is not altered at all by these revelations. "The persistent misinterpretation of Shostakovich's music arguably the most grotesque cultural scandal of our time," writes McDonald; to which one's only response can be "O *come on!*"

Andrew Clements

Nono's La Lontananza

ALMEIDA FESTIVAL

The death of Luigi Nono a month ago left not only the sense of loss of one of the finest musical minds of the last 40 years, but a feeling of deprivation too; his music has been *scandalously* neglected in Britain. We have heard almost nothing of the works of his final decade, including his third opera *Prometeo*, and its satellite *Das atmende Klarsein*.

A sample of just what we have been missing was provided at the Almeida on Friday, when Gidon Kremer gave the British première of a 40-minute work Nono composed for him in 1988, *La lontananza nostalgica utopica futura* for violin and tape.

The world of Nono's late works is rarefied and remote. It's hard to identify just why its frail compilations of sound create such a magical effect, why the forms, so difficult to pin down, are so satisfying and complete. *La lontananza* places the live violinist in the centre of an eight-channel collage of its recorded self; the performer moves between five music desks conducting dialogues with his taped alter ego, sometimes freeing himself to offer intimate asides or the briefest snatches of etiolated lyricism. At the close the violinist departs just as he has entered, and the tape winds the music to a close, framing the work with studio conversation (*sound bites from the recording sessions*) and the last vestiges of the unadulterated violin.

It is a strangely unadorned piece. The live component is always subdued, there is no *overt virtuosity, though the* performance demands supreme control; the tape may multilayer *the sounds, but it does* not modulate or transform them. Climaxes are short-lived, *raw and unshaped; the* electronic composition has none of the sheen and glitter one has come to associate with the genre. But it creates a web of endless possibilities, of associations and resonances. Nono called it a "madrigal for several wayfarers," and in its arcane way it does offer the sense of a contemplative journey, but one without any fixed goal or feeling of completion.

Kremer's wonderful playing is always at the centre. What other violinist could make it all so rapt and compelling, could offer such a selfless, ravishing account of Nono's fragile lines? There is a kind of celebration buried beneath the surfaces, when the music at moments seems to dwell upon the sheer beauty of the violin tone; then the scraps of melody do sometimes cohere into a sensuous polyphony. But the mood is generally far more restrained; *La lontananza* deals in nostalgia of the quietest, most discriminating kind.

Andrew Clements

La Damnation of Faust

FESTIVAL HALL

This was the third and last of the concerts that Charles Dutoit is giving with the Philharmonia this season. It is a while since the conductor last appeared in London with one of our home orchestras and this evening made his absence the more keenly felt. The playing was crisp and clean, even if a week's visit was not long enough for him to draw from the Philharmonia colours as subtle as he habitually obtains from his orchestra in Montreal.

The finesse that has made him an expert interpreter of the French impressionists is not necessarily a primary requirement for the Berlioz of +La Damnation de Faust+, where the music throws itself heart and soul into its subject. A cool and objective conductor such as Dutoit is less likely to let fly the wild extremes of Berlioz's orchestral writing or to probe the score's troubling depths as Colin Davis, for example, has.

Nevertheless, this was an engaging performance, lithe and fluent, with an exciting rush of adrenalin at the big moments. The Philharmonia Chorus sounded as if it might have benefited from one or two more rehearsals with the conductor, so it was left to the orchestral showpieces to highlight what Dutoit might achieve in ideal circumstances: a fiery Hungarian March and a Minuet of the Will o' the Wisps that danced with sprightly grace.

The tenor was Jerry Hadley, potentially a fine Faust with the right voice, liquid-clear and not too heavy; but unfortunately he sang as though as he was reading from the proverbial telephone directory (the *Paris volume, that is, in* French). Roderick Earle made an incisive Brander and David Wilson-Johnson took over at the last moment as a vivid Mephistopheles. No lack of character there, though the voice itself lacks ring and authority.

As a whole the solo quartet made an ill-assorted collection. What to say about Maria Ewing's Marguerite? A haunted presence on the platform, she sang the music with a lavish and quite undisciplined appliance of nuance, for much of the time rising little above a dream-like murmuring, as though the extreme intensity of Berlioz's vision had imploded within her. A weird and unsatisfying approach, but strangely compelling.

Richard Fairman

SALEROOM

Sherlock Holmes record

One of the last Sherlock Holmes manuscripts still in private hands, Conan Doyle's autograph copy of *The Valley of Fear* sold for £168,235 at Sotheby's New York over the week end to an American collector. The manuscript had once belonged to Randolph Hearst but was split up in 1950 and its chapters sold for $300 each. The vendor managed to assembled them all, apart from the epilogue.

The price was around twice the estimate and a record for a Conan Doyle manuscript. In the same auction Conrad's autograph manuscript of *Typhoon* went to the London dealer Gekoskei for £110,000, a record for Conrad.

Sotheby's and Christie's were busy in Monaco over the week end but few of their auctions set the world alight. Highest price at Sotheby's was the £411,534 paid for a landscape painted near Orleans by Constant Troyon. It was a record for this 19th century artist. The same price secured a secrétaire, stamped J F Leleu, and made in the 1770s.

Among the Old Masters, a scene of peasants in the woods by Jan Brueghel the Elder just beat its estimate at £297,219 and the same sum acquired "Le passerelle," a view of a rackety rural bridge by Hubert Robert, which was estimated at less than half the sum.

The auction devoted to the Italian Futurist movement was a disaster but among the illustrated books *La Rivière Enchantée*, with twenty six illustrations by Foujita, did very well at £42,296.

Christie's also had mixed fortunes with its weekend Monaco sales, scoring hits among the Old Masters but being left with almost half of its porcelain and furniture auction unsold by value. The headline news was a record price for Corot, £1.25m paid for a view of the entrance to the port of St Rochelle. It is a record which will be challenged tonight in London when Sotheby's sells a Corot nude from the collection of the British Rail Pension Fund.

Two other auction records were the £569,238 paid for an early 18th century Venetian view by Luca Carlevarijs, depicting the entry of the French ambassador to the Ducal Palace, and the £296,000 for an adoration of the Magi by the 18th century Italian artist Corrado Giaquinto. Best price among the furniture was the £227,692, four times estimate, paid for a set of five Regency armchairs, badly in need of restoration.

Guy Loudmer in Paris failed to sell many of its important modern pictures. A particular disappointment was a major Pissarro of a peasant woman under a tree where the bidding stopped at around £2m..

In London yesterday Christie's contemporary ceramics auction brought in £210,260 with 12 per cent unsold. A Hans Coper stoneware "goblet" form doubled its forecast at £14,300 but another Coper pot, in stoneware "hourglass" form, was near the low end of its estimate at £13,200.

Antony Thorncroft

Rattigan archive for British Library

The British Library has acquired, with the help of the National Heritage Memorial Fund, the literary archive of the playwright Terence Rattigan, who died in 1977. Of particular interest among his correspondence are letters from Laurence Olivier, Marilyn Monroe, Noel Coward, David Niven and Peggy Ashcroft.

US Impressionists in Lugano

From July 22 until October 28 there will be an exhibition of American Impressionist painting at the Villa Favorita in Lugano, Switzerland.

A total of 66 pictures from artists including Cassatt, Sargent, Frieseke and Miller will be on show.

ARTS GUIDE

June 15-21

OPERA AND BALLET

London

Royal Opera, Covent Garden. The triumphant new production by Bill Bryden of Janacek's *Cunning Little Vixen* is conducted by Simon Rattle. Thomas Allen, Lillian Watson, Diana Montague, Robert Tear, and Gwynne Howell head the splendid large cast. Latest round of the company's much-revived La Bohème production by John Copley; Antonio Pappano (house debut) conducts, and principals include Ilona Tokody, Jerry Hadley, Jonathan Summers, Barseg Tumanyan, and Judith Howarth.
English National Opera, Coliseum. No performances until August.
Ballet. At the Coliseum the glorious Kirov Ballet brings in a new staging of *The Sleeping Beauty* (Tues, Wed). At Covent Garden the Royal Ballet presents *Romeo and Juliet* (Wed). At Sadler's Wells the wonderful Spanish troupe Cumbre Flamenca returns on Tuesday for a three week season.

Paris

Chatelet. Handel's *Alcina* inspired by *Orlando Furioso*, conducted by William Christie with Arleen Auger in the title role is co-produced by the Grand Théâtre de Genève and the Ensemble Orchestral de Paris (40282840).
Opéra. The Taylor-Cunningham-Morris programme is followed by *La Sylphide* in Pierre Lacotte's choreography (47425371).
Théâtre de la Ville. Josef Nadj is followed by Anne Teresa de Keersmaeker's *Stella* (42742277).

Brussels

Théâtre Royal de la Monnaie. Richard Strauss's *Der Rosenkavalier* performed by the Monnaie opera and orchestra conducted by Emil Tchakarov, sets by Carlo Tommasi, staged by Gilbert Deflo with Judith Beckmann, Gunter Missenhardt, Lani Poulson.

Liège

Théâtre Royal. The Royal Wallonia opera in Puccini's *Manon Lescaut*, staged by Pierre Fleta with Jules Bastin, Daniel Munoz, Danuta Salska, Marcel Vanaud.

Berlin

Opera. *Der Feuervogel/Le Sacré du Printemps/Bolero* are all choreographed by Maurice Béjart. *Don Giovanni* has a new cast led by Angela Denning, Stefan Margita, Mariette Kemmer, Julien Robbins, Manfred Roehrl and conducted by Heinrich Hoellreiser. A Lieder recital by two famous bass singers, Kurt Moll and Harald Stamm, singing Mendelssohn, Anton Rubinstein, Dvorak, Ravel, Shostakovich, Mattiesen and Schubert. *La Bohème* is sung by Kallen Esperian, Gwendolyn Bradley, Antonio Ordonez and Andreas Schmidt. Also *Der Barbier von Sevilla* and a Kaja Borris Lieder recital.

Hamburg

Opera. The Brecht/Weill opera *Aufstieg und Fall der StadtMahagonny* has a strong cast led by Ning Liang/Renate Spingler, William Pell, Eva Gilhofer, Oskar Puergstaller /Piotr Czajkowski and Toni Blankenheim.

Frankfurt

Opera. The successful *La Clemenza di Tito* production convinces thanks to Alicia Nafe, Ana Pusar and Keith Lewis. Also offered *Il Barbiere di Siviglia*.

Cologne

Opera. Jean Pierre Ponnelle's wonderful *Die Hochzeit des Figaro* production features Ashley Putnam, Teresa Ringholz, Alessandro Corbelli and Martin Finke. *Die verkaufte Braut* is a well done repertoire performance.

Bonn

Opera. *Macbeth* stars Elizabeth Connell, Piero Capuccilli, Francesco Ellero d'Artegna and is excellently conducted by Gianfranco Masini. The lively *Barbier von Sevilla* production by Willy Decker is of respectable standard with Frank Lopardo, Gabriel Bacquier, Gino Quilico, Jean-Philippe Courtis and Susanne Mentzer.

Munich

Opera. Rossini's rarely played *Mose* is sung by Cornelia Wulkopf, Doris Soffel, Alejandro Ramirez and Manfred Schenk. *Rigoletto* has a first-rate cast led by Daphne Evangelatos, Mariella Devia, Leo Nucci and Kurt Moll. *Onegin* has John Cranko choreography. *Die Jungfrau von Orleans* stars Waltruad Meier, Julia Conwell, John Broecheler and Theo Adam.

Stuttgart

Opera. Three operas by Philip Glass, *Einstein on the Beach*, *Satyagraha* and *Achnaton*. The latter, specially composed for the Stuttgart Opera, is a deliberate break from the American tradition, not only in its choice of young Egyptian Pharaoh as main figure, but also in the corresponding use of African and Asian musical forms. The title role is excellently sung by counter-tenor Paul Esswood. Also in repertory: *Falstaff* and *Figaros Hochzeit*.

Barcelona

Gran Teatre del Liceu. *Les Contes d' Hoffmann* by Offenbach, conducted by Eugene Kohn, and featuring Neil Shicoff, Jose van Dam and Ruth Welting closes the season at the Liceu. Ends July 5 (318 92 77).

Milan

Teatro Alla Scala. Last opera this season is a slightly sinister rendering of Tchaikovsky's *Queen of Spades* by the Russian/American cinema director Andrej Koncialovsky set in a twilight 18th century, designed by Ezio Frigerio. Mirella Freni, Vladimir Atlantov and Margherita Zimmerman lead the cast, conducted by Seiji Osawa. Also a repeat of *La Traviata*, conducted by Riccardo Muti, with the young Tiziana Fabbricini as Violetta (80.91.26).

Rome

Teatro Valle. The Teatro dell'Opera opens its summer season here with Paisiello's *Don Chisciotte*, in Pino Micol's production with sets and costumes by the painter Ugo Nespolo. Paolo Barbacini, Elena Zilio and Nuccia Focile lead the cast, conducted by Gail Gilgor (654.3704).

Florence

Teatro Verdi. British director Graham Vick's newproduction of the Brecht/Weill opera, *Mahagonny* (sung in German with Italian surtitles), with Luciano Berio as co-ordinator of the project and Jan Latham Koenig conducting. The cast includes Yvonne Minton, Alberto Rinaldi, Catherine Malfitano and Warren Ellsworth (2779236).

Teatro Della Pergola. Jonathan Miller's new production of Mozart's *Don Giovanni*, designed by Bob Israel, with Samuel Ramey in the title role, Katia Ricciarelli as Donna Anna, Daniela Dessi as Donna Elvira, and Adelina Scarabelli Zerlina. Zubin Mehta conducts (2479651).

Teatro Communale. Luciano Pavarotti in GiulianoMontaldo's production of Verdi's *Il Trovatore* conducted by Zubin Mehta (2779236).

Venice

Teatro la Fenice. A romantic and highly successful production by Pier Luigi Pizzi of Wagner's *Lohengrin*, conducted by Christian Theilemann, with Francisco Araiza in the title role (5210161).

New York

Metropolitan Opera. *La Traviata* conducted by Christian Badea is performed free in Central Park with Marilyn Mims as Violetta, Alfredo Kraus as Alfredo and Sherrill Milnes as Germont (Tue).
American Ballet Theatre. The 50th anniversary season consists this week of *Swan Lake* with additional choreography by Mikhail Baryshnikov. Season ends June 30. Opera House at Lincoln Center (362 6000).
New York City Ballet. The conclusion of the festival of Jerome Robbins's ballets is part of a week that also includes *Watermill, Who Cares?* and *Moves*. Season ends July 1. New York State Opera House, Lincoln Center (870 5570).

Chicago

Lyric Opera Company presents the first revival of Hugo Weisgall's opera *Six Characters in Search of an Author*, based on the Pirandello play with a cast of 34 including soprano Elizabeth Byrne, tenor Kevin Anderson and baritone Robert Orth (Thur). Civic Theatre (332 2244).

Tokyo

Ballets Trockedero de Monte Carlo. The all-male company in their endearing send-up of the classical tradition. Nakano sun Plaza. (980 9988). Ends Wednesday.
Laughing Stone Dance Theatre Company from the US, founded by Korean dancer Sin Cha Hong. Shibuya Parco Space Part 3 (Thur) (477 5858).

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Tuesday June 19 1990

Europe's Arab neighbours

UNDERSTANDABLY, western Europe's attention for the last year or so has been riveted on events to its immediate east. These have seemed much more exciting than events in the Arab world, an area about which Europeans had to think more in the 1970s and early 1980s than most of them really liked. Yet in some respects the situation in parts of the Arab world, and especially in north Africa, is comparable to that in the Soviet Union and eastern Europe.

There too is to be found widespread and bitter disillusionment with both the personnel and the ideology of a ruling elite which has combined economic mismanagement with personal corruption. There too the retreat of Soviet power has contributed to a loss of nerve by that elite, which has been driven to experiments, widely differing in their degree of boldness or timidity, with political and economic liberalisation. There too the opposition, appealing to the historic traditions of the region, has often taken a religious form, partly because religious professionals and places of worship were often the only people and institutions enjoying at least a measure of autonomy. There too, above all, the new political forces are far from having clear answers to the horrendous economic problems left unsolved by the outgoing regimes; and North Africa, more even than eastern Europe and at least as much as the Soviet Union, is a reservoir of desperately poor people who are liable to spill over in uncontrollable numbers into the rich pastures of western Europe.

There are, of course, important differences. Few Arab countries had gone as far in instituting complete state control of the economy as those of the Soviet bloc; nor has political change so far been as sudden or spectacular. But what makes that change most difficult for Europeans to identify with is that the religious leaders and institutions which canalise political protest are not Christian but Islamic.

Image problem

Islam has, to say the least, an unfavourable public image in most western countries. Folk memories of Saracen or Turkish invaders, mingled with those of bitter ("fanatical") resistance to European rule in various parts of the world, have been revived by the more recent spectacle of Islamic revolution in Iran, with its sanguinary sequel, and by conflicts such as the Rushdie affair in Britain, or the dispute over girls wearing headscarves in French schools, which have brought home the fact that Moslem communities established in European countries will not automatically assimilate to all aspects of the host culture.

There is, consequently, a tendency to lump together all Islamic politics under the blanket term "fundamentalist", and to assume that it is synonymous with violence, tyranny and hysteria. The fact that those very qualities have often characterized the West's treatment of Moslem countries may or may not be remembered, and in any case hardly helps matters. The result is that Western public opinion is all too close to thinking that democracy is something not to be encouraged in the Moslem world, because Moslems if given the chance will vote for fanatical and antidemocratic forces.

Dangerous responses

Last week's victory of the Islamic Salvation Front (FIS) in Algeria's municipal and provincial elections – the freest held in any Arab country for quite a few years – is liable to reinforce that attitude. Other Arab rulers will hesitate to follow President Chadli Bendjedid's example, and Europeans will tend to think the Arab world beyond redemption. Such responses are dangerous, because they could all too easily be self-fulfilling. In fact there is still everything to play for. Within Algeria, the outcome of local elections, widely seen as a straight fight between the FIS and the ruling FLN and boycotted by some more secular opposition parties, does not necessarily prejudge that of national elections if those parties present a united front; and within the FIS there are moderates as well as extremists.

In the wider Arab world, Islamic voices will inevitably be among those heard whenever free expression is allowed. If they can mobilise the people for successful economic effort – as nationalism and socialism have so far signally failed to do – then Europe has every reason to welcome them. For as the Dutch social scientist Hans Entzinger has remarked, if there are no economic solutions in North Africa, Europe will soon find that the Mediterranean is no wider than the Rio Grande.

Phasing out A levels

MR John MacGregor, Britain's Education Secretary, is being criticised within the Conservative Party for failing to maintain the momentum of Mr Kenneth Baker's education reforms. This lack of dynamism, it is argued, has allowed the Labour Party to make important headway in an electorally sensitive area: opinion polls show its "lead" on education has increased markedly since 1987.

The criticism is in part unjust. Mr MacGregor has inherited the thankless task of trying to turn Mr Baker's lofty ideas into practical policies. There has been no backsliding on the introduction of a compulsory 10-subject national curriculum for 5 to 16 year olds, although the proposals for testing and assessing achievement have been watered down. The Government is also pressing ahead with the devolution of budgets and managerial responsibility to individual head teachers.

Mr MacGregor's problem is that everything he does looks old hat. He badly needs to develop and market his own ideas. The obvious place to start is post-16 school education, an area of crucial importance given the need to raise staying on rates and improve skill levels in industry. Mr Baker's contribution in this sphere was negative: in 1987, under pressure from Downing Street, he summarily rejected the Higginson Committee's proposals for the reform of Advanced (A) level examinations. Higginson had wanted to retain the rigour of A levels but trim syllabuses in order to allow the average student to be examined in five rather than three subjects at the age of 18.

There are two separate objections to A levels. The first is that they fail to serve the real interests of the minority of bright students – the top 20 to 25 per cent of the ability range – for which they were designed. Educationalists are united in believing that an examined sixth form curriculum of three, usually related, subjects represents a quite excessive degree of specialisation. The second and even more serious objection is that A levels are totally unsuitable for the bulk of less academic 16 to 18 year olds. By failing to provide a natural progression from the GCSE exams taken at 16, they help ensure that Britain has one of the lowest staying on rates in the industrialised world.

Tinkering

The Government appears to believe that a broad, accessible and relevant sixthform curriculum can be created around A levels, which would remain a guarantor of quality. It is promoting the Advanced Supplementary (AS) exam, which is intended to be as demanding as an A level but to take half the time to complete. At Mr MacGregor's request, the National Curriculum Council also recently proposed ways in which "core skills" – such as numeracy, modern language competence and problem solving – could be embedded in existing A level syllabuses. Another body, the Schools Examination and Assessment Council, is looking at ways of rejigging A and AS levels so as to provide a broader curriculum.

This kind of tinkering may bring about greater flexibility, but it fails to address the fundamental problems. AS levels, for example, are not much help for less bright students because they are explicitly intended to be as difficult as A levels. Core skills such as numeracy and information technology cannot be injected into A level courses that were designed with quite different objectives. Sooner or later, Mr MacGregor must accept that exams invented in the early 1950s are not appropriate for the 1990s. A levels, in other words, must be phased out. Making a case for really radical reform of the 16 to 18 curriculum would do wonders for Mr MacGregor's sagging reputation.

A treaty will be signed today lifting all frontier controls on the movement of people between five European states. **David Buchan** reports

Five go off to Schengenland

On a boat, moored by the tiny Luxembourg village of Schengen where the grand duchy, Germany and France converge on the Moselle, five states will bring to an end five years of work when they sign an agreement this afternoon to abolish all frontier controls on people passing between them.

Germany, France and the Benelux countries will not today become one jurisdiction. But there will henceforth be inside Europe the free travel zone of Schengenland. Reflecting an extraordinary degree of trust and commitment in such sensitive areas of sovereignty as immigration and policing, the Schengen Five have agreed to shift controls away from their internal borders to their external frontier.

To do this, they have had to agree, among many things, on a common visa and asylum policy, to pool their crime data in a giant computer, to let their police forces hotly pursue criminals into each other's territory, and to minimise the differences in their anti-narcotics policies.

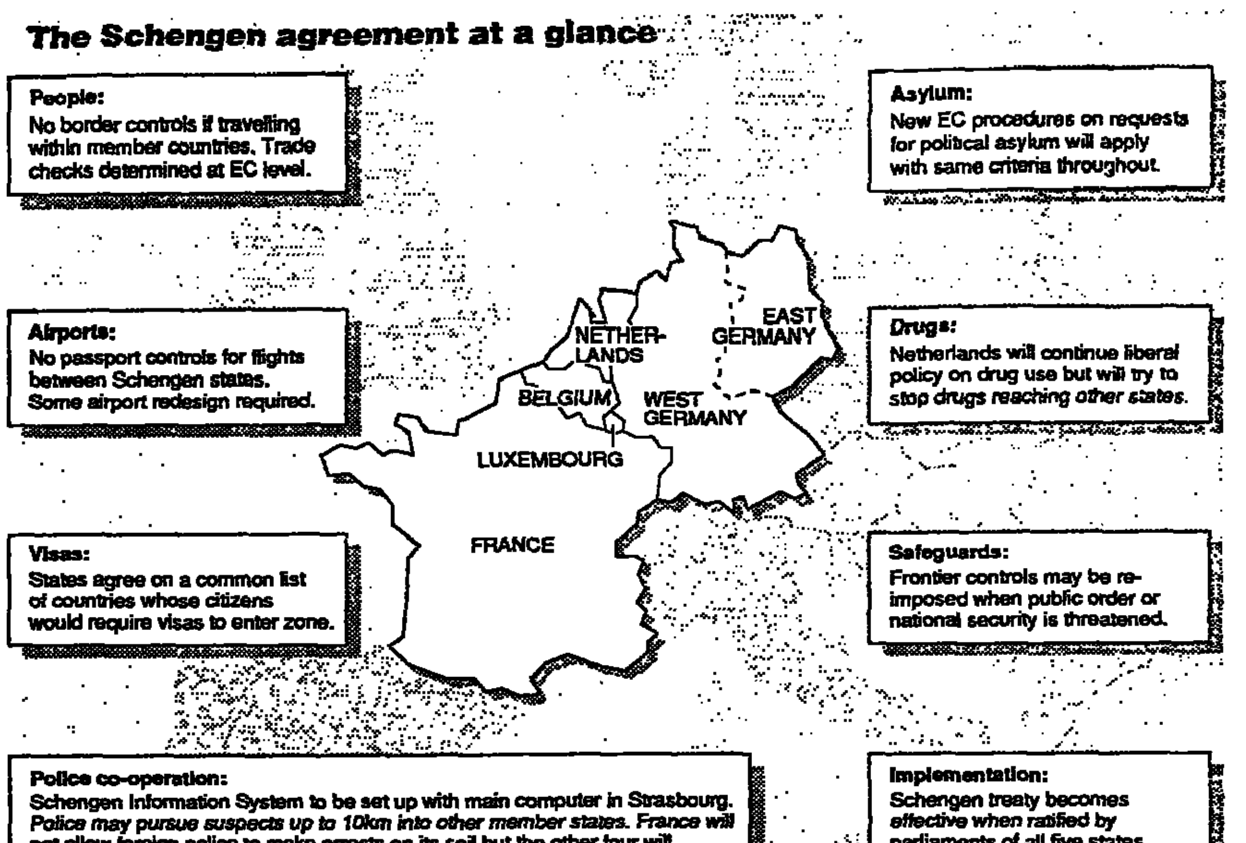
A few details have not yet been finalised. Schengen does not go into effect until all five parliaments have ratified it. If all goes well, this will be by end-1991. But the Dutch parliament has particular anxieties about data protection, and Belgium in particular has first to pass privacy and gun control laws. However, there is now a solid bedrock of treaty agreement between the Schengen Five.

Today's agreement raises security and political issues that go far beyond Schengenland. Will it give terrorists an easier ride around a large chunk of continental Europe, where events in Belgium last weekend again showed that the Irish Republican Army is well-established? Or could improved co-operation among the police forces of the Five seal the terrorists' fate?

Italy has been knocking for the past two years on the Schengen group's door. Thus far, the Five's response to Rome has been: "Our task is hard enough without you; with you it would be impossible." With the Schengen treaty now in the bag, and Italy tightening its own immigration policy, the Five may become Six. Spain, which has expressed interest in joining Schengen, might make it Seven. If Spain, why not fellow-Iberian Portugal? But do not geography and absence of mutual trust pose limits to the Schengen free internal travel concept ever embracing all 12 European Community states, as the Single European Act said it should? What about Britain whose Prime Minister has said: "It is a matter of plain common sense that we cannot totally abolish frontier controls if we are to protect our people"? Free travel between north and south in Ireland? What about far-flung Greece? Ironically, in the area of immigration and police, Schengen may bring nearer the prospect of two-speed Europe, a disjunction particularly worrying if it were to spread to other fields such as monetary union.

Schengen has been a "sleeper". It was born in 1984, out of frontier chaos in that year and a pact by Germany and France at Saarbrucken to ease formalities on their common border. Within months, the Benelux countries were clamouring for inclusion in this arrangement, given their generally happy experience with a common travel zone since the 1970s and the importance to them of the French and German markets. So in July 1985, the Saarbrucken Two became the Schengen Five. But it was overshadowed by the Single European Act then being negotiated, and its first stage was fairly puny. Cars crossing Schengenland's internal borders were henceforth only to be subjected to random checks, providing they displayed a green disc confirming that all passengers were EC nationals obeying duty-free and currency rules. It never really worked.

The Schengen agreement at a glance



Nevertheless the Five ground on. A treaty was in sight last December – but West Germany had second thoughts because of events in East Germany. The puncturing of the Berlin Wall had effectively widened Schengen's external frontier to include East Germany. For three months the Schengen negotiations froze.

Then, the cloud lifted in March, as it became clear that German unification would be a relatively swift affair, and that East Germany would become part of West Germany before Schengen were ratified by the parliaments of the five signatories. So passed such temporary nightmares as the East German secret police tapping into the new Schengen Information System (SIS) computer. The Schengen treaty, secret until published today, says explicitly it "will apply to the territory of East Germany".

The treaty reflects an extraordinary degree of trust and commitment in such sensitive areas of sovereignty as immigration and policing

However, the question of exactly where Schengen's external frontier should lie was also raised by airports, particularly by Amsterdam's Schipol which handles a lot of transit traffic – people arriving from outside the EC and going straight on to another EC state. As Mr Piet Dankert, the Dutch minister for European affairs, puts it: "It was vital for us that the arrangements at Schipol should not become too complicated, or else people will go to Paris or Frankfurt."

The agreed formula is that passengers arriving at, say, Schipol and bound for another intra-Schengen destination will only have their passports checked if they change planes there; personal luggage, if checked through, will be examined only at its owner's final destination within Schengen. None the less, to allow redesign of Schengenland's international airports, the new air passenger control system will not come into effect until 1993. The Schengen signatories claim – and the European Commission has insisted – that no distinction will be introduced between EC travellers who happen to be citizens of Schengen countries and those who are not. The issue is where the check is made, not who is checked.

But of concern to all Schengen signatories has been the question of which non-EC citizens are allowed into their free travel zone. The Five are not creating a common visa for visitors, but agreeing mutually to recognise the visas which each of them grants. This, in turn, has required that they all agree to require visas of visitors from certain countries which pose either a risk of security or illegal immigration. In fact, the 12 EC states are working to establish the same sort of negative list of countries whose citizens would require visas to visit the Community – work which might lead to an EC convention by the end of this year. The negative list of the Schengen Five and the EC 12 is pretty similar, with 60-70 countries on it. The difference, however, for the Schengen Five, is that from today none of them can change its visa policy without agreement of its four partners.

The Schengen procedure on political asylum will be roughly identical to that agreed in a convention signed by all EC states, bar Denmark, last Friday. The responsibility for considering asylum requests will, generally, lie with the state that first let in the asylum-seeker. This is designed to prevent refugees shopping around Schengen, or the EC, for a home, while giving the asylum-seeker a guarantee that at least one state will give him a hearing. However, the Schengen Five will also try to harmonise standards as well as procedures for asylum, involving, again at Dutch insistence, the United Nations High Commissioner for Refugees.

Germany, France and the Benelux countries will not become one jurisdiction. But there will henceforth be inside Europe the free travel zone of Schengenland

"There has to be a balance between freedom and security," says Mr Paul De Keersmaeker, Belgium's European Affairs Minister, "and this means at the very least free travel must not lead to an increase in insecurity."

But agreeing on the necessary police and judicial co-operation has touched many a neuralgic nerve among the Five. The centrepiece of this will be the SIS computer housed in Strasbourg, into which the Five will pool the details of a) people for whom they have issued extradition orders, b) non-EC citizens they consider undesirable, c) people who have gone missing, and d) people cited in a judicial or regular police inquiry. The Five's intelligence services will also be able to use the SIS to track those they consider a serious security risk.

Not surprisingly, the prospect of this electronic Big Brother has set libertarians' nerves jangling, especially among Dutch and some German (Free Democrats) politicians. To reassure them, individuals are to be able to appeal against being wrongly entered into the SIS, and there will be six bodies (five national and one central) to monitor SIS operations. A sine qua non of Schengen's ratification is that Belgium, the only one of the Five without a specific privacy law, must ratify the Council of Europe convention on data protection. None the less, Mr Dankert describes his own Dutch parliament as "not quite satisfied", a state that he hopes to remedy as the treaty becomes public and proper explanation of it possible.

In addition to tracking criminals electronically across borders, chasing them physically across frontiers will also become easier. The three Benelux countries have long allowed each other's police to chase suspects and make an arrest up to 10km into each other's territory. This mutual right of "hot pursuit" will, under bilateral arrangements, exist among all of the Five, but France's partners will have no right of arrest on French soil. To make this work more smoothly, Mr Dankert forecasts that in the next Europe-wide discussion of the allocation of radio frequencies, the police forces of the Five will all ask for the same band and buy identical equipment.

The SIS network is exciting the neighbours' interest. "While there may be deficits of security in the Schengen free travel zone, improved police co-operation is clearly the way forward," says Mr Roger Birch, chief constable of Sussex who also chairs the international committee of Britain's Association of Chief Police Officers (ACPO). However, quite apart from the UK Government's disinclination to join Schengen, he concedes that differences in data protection law would, alone, preclude outside forces being able to tap into the SIS. What ACPO would like, instead, is more action on the EC level, including establishment of a EC Police Council so that discussion of how to police a frontier-free Europe is not left totally to home ministers and their civil servants.

Schengen's politicians say extending their achievement will not be easy. "We have worked years on technical co-ordination and harmonisation," says Mr De Keersmaeker, "that's why we can't let Italy just sign, it has to accept our acquis."

Yet the alternative to Schengen, the piecemeal approach, is not promising either. Mr Dankert says: "I am pessimistic about the possibility of the 12 being ready to agree the whole systems of treaties they need to do away with border controls." Schengen covers what would otherwise have gone into eight or 10 separate treaties, he says. Imagine 12 governments, or even the remaining seven non-Schengen members of the Community, ratifying that number of treaties, and it is easy to see that "the risks of not getting to an end of that process are considerable."

OBSERVER

Taking back the icons

■ Brian Unwin, chairman of HM Customs & Excise and another of the new knights in last week's Birthday Honours List, has just taken a bagful of icons back to the Soviet Union.

No-one is saying exactly how they were picked up or how much they are worth, or indeed what would have happened to them if Customs & Excise had not hit upon the idea of handing them back as a gesture of goodwill.

The icons were seized by British customs officers some months ago as illegal exports from the USSR. The British Museum confirmed their enormous cultural, but priceless financial, value. Then Unwin was officially invited to Moscow, so he decided to take the icons with him.

The word is that British and Soviet customs officers are now co-operating quite closely. One element of perestroika is that the Soviets want to prevent illegal exports and they are looking to Britain for help on a database. Eventually, the database will be harmonised between the Soviet Union and the whole of the European Community. Co-operation on preventing drug smuggling began two years ago.

Apart from his customs duties, Unwin is the Board Secretary of the English National Opera. Thus, along with returning the icons, he fitted in a visit to the ENO's performance at the British Week in Kiev.

Top hole

■ There was one game to play in the annual golfing match between the Treasury and the Bank of England at Sudbrook Park in Richmond last Friday. The Treasury was leading by three games to two. Some of the best names, if not necessarily the best players, had been kept to the last. For the Treasury there was Sir Robin Butler, the Secretary to the Cabinet, playing with Sir Terence Burns, the Chief Economic Adviser. For the Bank there was David Pollitt, a member of the personnel department and generally known as "Harry", playing with the Governor, Robin Leigh-Pemberton. It was the Governor who clinched it at the last hole. The result was three games each.

Smaller plates

■ Diplomatic number plates can provide cover against many incidents, such as parking fines, being towed away and even terrorism. And, it would seem, some non-diplomats have been profiting from such opportunities.

Now, however, the Diplomatic Protection Group, which looks after the fortunes of resident diplomats in co-ordination with the Foreign and Commonwealth Office, has issued diplomats with new plates with a view to reducing abuses.

The new plates are slightly smaller than last year's crop. The shapes of the letters are different: for example, there are longer tails on the "E"s and the all-important "D" in the middle. Along the bottom is inset a line of letters – similar in intent to the metal strip in banknotes – to foil the would-be forger.

Incidentally, while on the subject of forgery, the new smaller £5 note is being described in the highest monetary circles as "the ultimate in counter-forgery technology."

Big question

■ What do you do about a letter like this? "Dear Sirs, I am a child aged 15 and presently studying for my GCSE in Economics... The question that I must answer is: Are the large private sector firms more

"He's re-enacting being a deserter from Waterloo."

important to the economy than small private sector firms? I must answer this question using the effects of large and small private sector firms on both the economy and the consumer. For example, Employment affects the economy while Prices affect the consumers. I am specifically interested in the Government's attempts to increase the number of small firms.

"I would be extremely gratefull (sic) if you could fax this information to me on the above number."

I suppose the first answer is that you admire the initiative of the pupil in writing to you. You also do your best to help, though our library is starting to wonder whether there should be a charge for such services, perhaps especially if a 15-year-old correspondent has his own fax.

But the main thought is that it is a ridiculous question to be asked in GCSE economics. It is remarkably similar to some of the questions posed in my daughter's GCSE geography paper. In terms of exam results, she may have done well enough in her answers, but I doubt if she had the faintest idea what it was all about. If this is modern practical education, one prefers the older-fashioned ways.

Another draw

■ Fifa, the governing body of world soccer, is bracing itself to face an embarrassing statistical twist in the World Cup. In qualifying Group F all four teams – England, the Netherlands, the Republic of Ireland and Egypt – have identical records. All four group matches have been draws. Each team has two points from two games and they have scored and conceded one goal apiece.

If the last two matches in the group on Thursday evening produce another pair of photocopy results, say, two goalless draws, all four will finish level. Although some part of every World Cup has been played in groups, this has never happened before.

Fifa will decide who goes through to the next round by drawing names from a metaphorical hat at the press centre in Rome on Thursday night. Nobody knows whether two or three names would have to be drawn: while the two top teams in each group qualify automatically for the second round, only the four best third-place teams do so.

Guido Tognoni, the Fifa press officer, says there are no plans for Sophia Loren, who pulled balls out of bowls at the World Cup draw last December, to assist again. Loren has been spotted at the World Cup, but perhaps a better choice would be Diego Maradona, who was a candidate for Fifa's Fair Play prize as the epitome of sportsmanship at the Mexico World Cup and is adroit with his hands.

So many

■ What did the male centipede sy to the female centipede? I like your legs.

Janet Bush looks at the US financial regulatory system

Thin line against con-men

"THE financial planning industry is in many ways still in the days of the Wild West. The marshal hasn't ridden into town, there's mayhem on the streets, a lot of random shooting."
Scott Stapf of the North American Securities Administrators Association

Michael Milken: potent image of white collar crime

THE sight of Mr Michael Milken, creator of junk bonds, sobbing as he pleaded guilty to securities fraud, or Mr Ivan Boesky, the former arbitrageur jailed for insider trading, admitting to a Manhattan courtroom that he was an inveterate liar, provided the public with the most potent images of white collar crime.

The successful hounding of these celebrated fraudsters also gave the impression that the Securities and Exchange Commission (SEC), which oversees the US securities industry, is a vigorous force to be reckoned with, a draconian guardian of the rights of America's estimated 50m investors.

It is no wonder that the SEC is regarded by many UK investors and regulators as a model for the powerful, centralised agency they want to replace the fragmented regulatory system thrown up by the 1986 Financial Services Act. The creation of such an agency is not on the political agenda, but is the subject of much talk – particularly when a Barlow Clowes or Dunsdale Securities exposes the ineffectiveness of one investment regulator or another.

But British investors would do well to take note of the picture of maverick lawlessness in the US investment industry offered by Mr Scott Stapf of Nasaa, the umbrella organisation for state securities regulators.

Although the SEC has had some notable and highly publicised successes, it has a budget of only $192m a year and a modest enforcement staff of 314 out of a total of 2,300 employees; its investment management division, which oversees the mutual fund and investment management industry, has a paltry 152 staff.

Mr Gene Goelke, associate director of the SEC's division of investment management, estimates that his inspection staff of 60 manages spot checks on as many as 1,500 investment advisers per year. The trouble is that there are at least 16,500 registered advisers in the US which means that each one gets a knock on its door once every 11 years.

"That is not a lot of protection," he said, bemoaning the Commission's limited resources. "But at least no adviser knows exactly when we will visit, which acts as something of a deterrent."

The demands on regulators are enormous. The SEC's estimate that there are around 16,500 advisers takes in only those who are registered. Nasaa reckons there are about 250,000 individuals purporting to offer investment advice, while the Consumer Federation of America believes that there could be as many as 500,000.

One of the alarming features of this industry is that investment advisers do not just offer wisdom and financial planning, but manage investors' money. Ms Barbara Roper, legislative representative at the Consumer Federation of America, believes that investment advisers handle more than $4 trillion, around 25 per cent of the public's assets.

Another element of great concern to regulators is that it is almost impossible to get an accurate picture of what is going on around the country. Practically anybody can register as an investment adviser with the SEC because the fee is a paltry $150. So-called investment "boiler rooms" can set up one day, lure in investors' money, and disappear shortly afterwards. The difficulty of tracking the sector is made obvious by the different estimates on the amount of fraud believed to be perpetrated. The Consumer Federation puts the amount lost by investors through fraud and incompetence at around $1bn a year; Nasaa believes that investors are milked of $40bn from investment scams of all types annually.

As in Britain, US regulation of the securities industry is multi-layered. Oversight by the government-appointed SEC under the Investment Advisers Act of 1940 is supplemented not only by self-regulators in the industry, but also regulators at state level who have laws modelled on the 1940 Act.

The investment management sector of the securities market is unique in the US because it does not have a self-regulator. The brokerage industry, for example, is regulated not only by the SEC but also by exchanges such as the New York Stock Exchange and the National Association of Securities Dealers, which oversees the over-the-counter market. Self-regulatory organisations such as these do a great deal of day-to-day policing work.

The SEC sent a proposal up to Congress last year suggesting the creation of a self-regulatory organisation for the investment management and mutal fund industry, but legislators have so far not actively addressed the issue.

There are, however, initiatives at state and federal level to sharpen the fight against fraud.

In Congress, Representative Rick Boucher of Virginia has introduced a bill which would amend the 1940 Act to improve disclosure to investors, authorise the SEC to levy civil penalties for violations of the law – currently there is nothing in between administrative actions and full criminal prosecutions – and strengthen the right of investors to bring suits against their investment advisers.

There are also moves on Capitol Hill in favour of strengthening the power of the SEC, including its resources. One proposal is that the SEC should, to some extent, be self-funding. As things stand, the SEC hands a large share of the fees it collects when investment advisers register to the US Treasury. One argument gaining ground is that it should retain these fees to cover more of its costs.

On a state level, Nasaa has drawn up its own Model Investment Adviser amendments which have already been adopted by eight states and are being considered by at least 30 others. These set up a framework of more stringent control of the industry, including frequent inspection of books and records and a thorough testing requirement for advisers.

Some securities offices in states which have had a particularly egregious history of con artists have had some success in attracting more state funding to fight fraud. Florida, a favourite target of phony investment planners because of its large population of wealthy, elderly people, has doubled its resources since 1986 and cut the number of illegal investment boiler rooms from 200 to an estimated 20.

The variety of investment scams is almost endless. One financial planner from Washington state was charged with stealing $7m from around 400 investors promised between 30 per cent and 40 per cent returns on an offshore bank's trading in Certificates of Deposit, precious metals and "international arbitrage trading." State investigators found that the bank, in the Marshall Islands, a US protectorate in the Pacific, was a gas station owner who went to the local post office and simply remailed investor cheques back to the financial planner.

In Georgia, a former pastor of a Baptist church in Alabama, who offered Christian financial planning to churches and their congregations, was sentenced to five years in prison in 1988 for cheating more than 16 investors out of $226,000.

State regulators believe that the latest serious potential source of fraud is enthusiasm about investing internationally and Nasaa is compiling a report for a House Government Operations sub-committee.

It believes that investors have an "abysmally low level of awareness" about overseas regulations, which are often less protective than those in the US and that it will be very difficult for US regulators to pursue actions against boiler rooms based offshore.

Mr Stapf said: "Our concern now is that there is an uncritical euphoria about investing overseas. Its like the Oklahoma land-rush."

FOREIGN AFFAIRS

Discreetly embarrassed by defence

Nato remains the best security insurance policy, maintains **Robert Mauthner**

NOW that peace has been officially proclaimed in Europe and architects everywhere are busily constructing dwellings for the loving east-west couple, it has become almost an embarrassment to talk of defence. Nato and the Warsaw Pact, the gladiators of old, are both beginning to underline their political rather than their military role in a belated attempt to adapt to the speed at which Europe is being transformed.

For the Warsaw Pact, it is a case of *force majeure*. The military alliance has virtually disintegrated as the result of the collapse of most of the East European communist regimes and the unilateral withdrawal of a substantial number of Soviet troops and their equipment. It is hardly surprising, therefore, that Moscow should be calling for the ultimate dissolution of both military pacts, and their replacement by a collective security system under the umbrella of the 35-nation Conference on Security and Co-operation in Europe (CSCE).

There can be little doubt that many people in the West, and not only in Germany, support the argument that there is no longer any need for powerful military alliances with large nuclear arsenals, given the greatly diminished threat of attack from the East. But there are some very good reasons why Nato is right not to swallow the whole of this bait, while nevertheless doing everything possible to promote political co-operation with the East and to speed up the arms control process.

The "end of conflicts" theory is not one that inspires great confidence. President Mikhail Gorbachev's durability is by no means a foregone conclusion, as the latest political events in the Soviet Union have demonstrated only too clearly. While it seems most unlikely that the Soviet Union will ever revert to communist orthodoxy, it is certainly conceivable that it could, one day, again take a much harder line in its foreign and defence policies. Eastern Europe remains unstable and tensions in the region could easily spark off a wider conflagration, as has happened in the past.

Yet an effective collective security system embracing nations as geographically distant and with such diverse interests as Belgium and Bulgaria is no more than pie-in-the-sky. Would Norway agree to give a security guarantee to Hungary, if it were attacked by Romania as the result of an ethnic dispute? Such a system could only work in practice if it were based on majority voting within the CSCE – inconceivable in the present embryonic state of the east-west relationship – or, possibly, if the two superpowers agreed on joint action, with the support of other nations, which is unlikely to occur very often.

For the West, therefore, Nato remains the best security insurance policy, even though the new situation in Europe clearly requires that it, and what remains of the Warsaw Pact, should be dovetailed into new east-west political and conflict-management forums like the CSCE. Nato has already proved itself as an effective western co-ordinating forum for arms control negotiations and that function will continue for the foreseeable future. What will be much more difficult to decide is the new military strategy and the level and type of weapons appropriate to the much-reduced threat from the Soviet Union and potential "out-of-area" enemies.

The 'end of conflicts' theory is not one that inspires great confidence. President Mikhail Gorbachev's durability is by no means a foregone conclusion

There is general agreement, in the time-honoured language of Nato ministerial communiques, that "an appropriate mix of conventional and nuclear forces, at the lowest levels consistent with our security needs" is required to guarantee the member states' security. It is the kind of formula to which everyone who accepts that conventional weapons alone have never stopped wars from breaking out – but that nuclear arms have played a vital role in preventing major conflicts in Europe over the past 40 years or so – can subscribe. But member governments have been far from open in discussing the practical consequences of Nato's new policy of "minimum deterrence" in detail, because it is a political minefield.

The need to smooth the way to German unification and to persuade the Soviet Union to accept that a united Germany should remain a member of a less military-oriented Nato, has inhibited the debate about the controversial issue of nuclear modernisation. President George Bush briefly burnished Nato's new peaceful image by his termination in May of the programme to replace the Lance ground-launched nuclear missile with a more up-to-date version and the cancellation of the modernisation of US nuclear artillery shells based in Europe. Yet it was clear that these weapons were in any case no longer of great use to Nato, given that their short range would allow them to be used only against East Germany, shortly to be incorporated in a unified German state, or other newly democratised East European countries.

The American decision, coupled with an offer to open negotiations with the Soviet Union on the reduction of existing short-range nuclear forces (SNF) in Europe as soon as a conventional forces reduction agreement is reached with the Warsaw Pact, is by no means the end of the story. Nato may have decided to abandon all ground-launched SNF missiles in Europe, but it is still wedded to the principle of deploying some kind of "sub-strategic" arms to fill the gap between conventional forces and strategic missiles, as part of its flexible response strategy.

Thus, what threatens to be another acrimonious debate within the Alliance and with the Russians over Nato's development and possible deployment of new air-launched missiles, has merely been postponed. It is a foregone conclusion that a unified Germany will not want these weapons based on its territory, whatever Mrs Margaret Thatcher may say about the need for their forward deployment. That much has already been made clear unofficially by spokesmen for Foreign Minister Hans-Dietrich Genscher's Free Democratic Party and, more publicly, by the opposition Social Democrats. Mr Helmut Kohl, the Chancellor, and his Christian Democratic Party may well have other ideas on the subject. But he will certainly want to keep such a sensitive matter under wraps until the German election, at the end of this year or the beginning of next, is out of the way.

As for Moscow, it will merely see the development by the US for Nato's use of the Tactical Air-to-Surface Missile (TASM), which can reach the Soviet Union when fired from an aircraft, as inherently destabilising and a way of circumventing any short-range nuclear agreement. Nato will certainly want to keep air-launched weapons out of the forthcoming SNF talks, but the Soviet Union can be expected to use the negotiations as a means to block the deployment of the TASM.*

Significantly, Nato ministers and spokesmen are going out of their way to tell the world that decisions on the air-launched missiles, which would be ready for deployment in the mid-1990s, are not urgent and will not be taken by Heads of Government at their summit in London at the beginning of July.

Yet it is difficult to see how the problem can be ignored altogether. Nato leaders are supposed to be discussing the political and strategic implications for the Alliance of German unification. That means talking about nuclear weapons in some detail. To sweep such a vital problem under the carpet may be advisable for a host of short-term political reasons. But the nettle will have to be grasped sooner than later if Nato is to forge a credible new strategy.

**The forthcoming SNF negotiations, by William D. Bajusz and Lisa D. Shaw, Survival July/Aug, Brassey's for the I.I.S.S.*

LETTERS

Step by step to EMU

From Mr Roger Grazebrook.

Sir, Peter Norman and Tim Dickson's article ("Belgium reveals plan for overhaul of money market," June 14) raises some topical issues regarding the role of a central bank in the European Community.

But nowhere in their article do they make reference to Economic and Monetary Union (EMU), which may perhaps explain certain of the Belgian Government's plans for financial sector reforms.

Two considerations come to mind:

- The greater independence planned for the Belgian central bank could also be seen as a preparatory step towards the European System of Central Banks (ESCB), or EuroFed, proposed in Stage II of the Delors Report and currently the subject of serious discussion by the member states of the EC. One of the principal aspects is the degree of autonomy that the new European central bank should be allowed to have, and there is a strong body of opinion that supports the argument that the central bank should be in a position to take day-to-day decisions on open market operations and intervention tactics without the need to refer to the political authorities of the EC. In this sense it would be independent – but of course democratically accountable.
- The discussions initiated by the publication of the Delors Report also address the issues of fiscal deficits and prudent budgetary policies in member states, which are seen as essential to the proper functioning and success of EMU. The opinions vary, but there is an overall consensus that some co-ordination of macroeconomic policies will be necessary at Community level in support of monetary policy. One of the principles advocated in this respect is that the EuroFed should not be expected to finance the budgetary deficits of member states, and therefore the statement in your article, that the Belgian National Bank "will no longer extend credits to the government to finance its deficit," would again suggest that their planned reforms are preparatory steps for EMU.

Roger Grazebrook,
European Community Adviser,
Lloyds Bank,
71 Lombard Street, EC3

The point of statutory securities regulation

From Mr R.P. Wilkinson.

Sir, Mr Wills (Letters, June 15) says there are better examples to follow than a "Statutory Regulator in the style of the US Securities and Exchange Commission (SEC)."

He commends the statutory regulatory systems in Canada and Australia.

Mr Wills has missed the point – or, rather, two points. First, Mr McCrindle (Letters, June 12) was citing the example of the SEC as a statutory commission as opposed to the Securities and Investment Board, which is statute-backed. Second, in citing Australia and Canada as better examples, Mr Wills is apparently oblivious to the fact that in both countries the present regulatory systems are beset with statutory problems.

In Australia, the National Companies and Securities Commission and the Corporate Affairs Commissions of the states are being replaced by a federal Australian Securities Commission. In Canada, the provinces have their own securities commissions which are quite dissimilar in their powers and authority; there is no federal regulator.

In both countries there is recurring discussion, not to say controversy, over the position of provinces or states as opposed to central government in securities regulation as well as other matters.

In the US the position of the SEC vis-à-vis the individual state regulators is well defined, even if there is argument between SEC and CFTC (Commodities Futures Trading Commission) over regulation of stock options and futures. The SEC may not be the best securities regulator, but I would not accept that those in Canada and Australia are better. Nor, I suspect, would they.

R. P. Wilkinson,
Bessels House, Bessels Green,
Sevenoaks, Kent.

Courage needed for change in Polish industry

From Mr Mark Scibor-Rylski.

Sir, Professor Desai (Letters, June 15) argues for greater consensus on the changes in Poland so that Solidarity's stabilising effect is maintained. He thinks Poland's industries need protection.

De-industrialisation is the price paid for historical neglect (or misuse) of investment in equipment, people and markets. Few countries can afford to defer the closure of uncommercial businesses, even for social reasons. The cost is then met elsewhere, and is doubled as opportunities are lost. Poland, especially, cannot support outdated industries; it must raise its GNP and it must export competitive products for the sake of living standards and political stability. Poland must therefore win investment from abroad and live with some inequality at home.

The Green argument has won support in Poland, where industrial pollution is at criminal levels. But commercial and environmental company closures are separate decisions.

Professor Desai implies that intelligent government intervention leads to a better industrial structure. To a degree this is true. There is active government involvement in Poland's re-industrialisation and privatisation, but this is strongly influenced by the terms associated with western capital.

His parallel with the UK must be challenged. UK industrial development has been held back because we have not used our best brains for business, not because of the free market economy.

Professor Desai is rightly concerned by the vicissitudes which will befall the Poles (why does he refer to them as workers?). In arguing for consensus, however, he argues against change. The choice lies between long, maybe permanent stagnation and decay, or a shorter term pain. Therein lies the courage of the actions being taken in Poland.

Mark Scibor-Rylski,
Industry Investment Associates,
33 Harley House,
Marylebone Road, NW1

Music to alarm the birds

From Mr Art Lance.

Sir, Your report of UK Government support for the Rainham Leisure complex ("Boost for Rainham leisure complex," June 11) made no mention of the important environmental concerns. Rainham Marshes forms part of an area of national importance for wild birds and other wildlife, and it has been identified and designated by the Government's own advisers on nature conservation, the Nature Conservancy Council, as a site of special scientific interest (SSSI).

The Government, despite its professed concern for SSSIs, made the extraordinary decision not to call a public inquiry to examine properly the development proposals confronting Rainham – the largest remaining SSSI in the London area.

The Royal Society for the Protection of Birds finds the Government's handing out of money as a "sweetener" to the Music Corporation of America (MCA) disturbing.

The £16m package proposed by MCA to mitigate the effects of its development can now more correctly be seen as an attempt to "buy off" opposition from conservation objectors. The approval of Mr Chris Patten, Environment Secretary, and the reported £250m government incentives on offer, make MCA's package look like a shrewd investment.

If such sums of public money are to be made available to support this project it should be easy to find a more environmentally acceptable location for Universal City. The most obvious is surplus agricultural or derelict land.

Art Lance,
RSPB, The Lodge,
Sandy, Bedfordshire

Paying for it by degrees

From Mr G.D.W. Smith.

Sir, There is one vital thing missing from Lynton McLain's otherwise excellent article ("The mechanics of a modern world," June 15) on the falling number of applications for degree courses in engineering: salaries.

Universities may tinker with the structure of their courses as much as they like, but until employers are prepared to pay graduate engineers the sort of money they offer routinely to lawyers and to recruits into business and/or business management, the problems will persist.

G.D.W. Smith,
8 Tilgarsley Road,
Eynsham,
Oxford

FINANCIAL TIMES
Tuesday June 19 1990

Guerin is ordered to repay Ferranti $189m

By John Authers in London

MR JAMES GUERIN, the man at the centre of the arms contracts scandal which forced Ferranti, the UK electronics and defence company, to suspend its shares on the London Stock Exchange, was yesterday ordered to pay back $189.9m to the company.

A judge at the High Court in London labelled his written response to questions "contemptuous" and "illusory."

Extracting the money may present difficulties, as much of it has still to be traced.

However, representatives for Ferranti said that they had located some of the assets and they regarded the judgment as an "important step" towards retrieving at least some of the money.

Coopers and Lybrand, the accountants, judged $189.9m to be the net outflow from ISC Technology, an arms contractor chaired by Mr Guerin which was taken over by Ferranti in November 1987, to a web of at least 30 Panamanian companies which Mr Guerin now admits setting up.

Mr Justice Hoffman struck out the defence offered by Mr Guerin, an American citizen, saying his sworn statements showed a determination on his part not to assist the companies in locating the money in any way.

He said: "As Mr Guerin is out of this jurisdiction, the court has no sanction against him except to say that anyone who wishes to defend proceedings in this country is required to play according to the rules of this court. He has not."

Neither Mr Guerin, nor his lawyer, could be contacted in the US.

ISC first served a writ against Mr Guerin on November 30 last year. The judge made his ruling in favour of ISC after hearing the affidavit which Mr Guerin filed in response to an order made by the High Court on April 11 this year.

The affidavit revealed that the managing directors of Panamanian companies, who signed documents in names such as Blumenthal and Rousseau, which Mr Guerin counter-signed, did not exist. The judge concluded that if these people did not exist, it must follow that Mr Guerin was saying that they were not genuine contracts.

"If they were not genuine contracts, then the money must have been paid out for some ulterior purpose and if it was, then Mr Guerin must know something about what happened," said the judge.

Mr Guerin failed to provide details and information about what had happened to the payments, amounting to $450m, made from the beginning of 1984 onwards, on behalf of ISC to five Panamanian companies, and 26 other Panamanian companies linked to them. The information requested included relevant names and addresses of third parties and bank account numbers. Mr Guerin claimed that he could remember none of these details.

The judge commented that to lose sight of this large a sum of money, "looks like carelessness, as someone might have said".

Troops guard the parliament building in Bucharest yesterday during the first session since last month's elections

EC delays economic pact with Romania

By David Buchan in Luxembourg and Judy Dempsey in Bucharest

EUROPEAN Community foreign ministers last night delayed approval of a trade and economic co-operation pact with Romania to show their distaste for the violent suppression of protest demonstrations in Bucharest last week.

It is also likely that Romania will not now receive western aid from the so-called Group of 24 countries, which includes EC members, the US, Japan and other donor nations.

The EC ministers' decision came as Romania's parliament voted for police action against continuing anti-government demonstrations in Bucharest's University Square – scene of last week's bloody clashes.

The parliament, which is dominated by the National Salvation Front, approved a motion demanding that the *forces of public order intervene* against the protesters.

The EC ministers, meeting in Luxembourg, roundly criticised the Bucharest authorities for "indiscriminate use of force" in putting down last week's demonstrations. Ministers from various EC countries, including Britain, have already condemned the Bucharest government for calling in miners, who beat up protesters.

Freezing of the trade and co-operation agreement will have little immediate effect, as it provides a framework for further talks. But ministers regard it as a symbol of their policy towards eastern Europe, which aims at encouraging progress towards democracy and market economies.

A majority of ministers backed a call by Mr Frans Andriessen, the EC commissioner for external affairs, to *exclude Romania from western* aid by the Group of 24. The G-24 will meet in Brussels on July 4 to consider their aid effort in eastern Europe.

An EC official said Romania now was unlikely to be invited to the meeting. Six other east European countries will be invited.

However, there is a difference of emphasis among EC members over Romania. Britain is the strongest backer of the relatively tough Andriessen line that also enjoys US support. But France and Italy are anxious not to sever contacts with Bucharest.

The Romanian news agency Rompres reported that in the 396-seat Romanian Assembly only 72 deputies voted against the motion backing police action.

The small opposition parties, whose headquarters were ransacked by groups of miners last week, attempted to call for a parliamentary commission to try to discover who brought in the miners and why the army and police were not prepared to impose law and order in the city. But no vote was taken.

Some deputies, including Mr Mihai Sora, deputy Minister of Education and an independent deputy, sharply criticised President Ion Iliescu, who personally thanked the miners last Friday for their work.

Mr Iliescu was to have been sworn in as President yesterday but the ceremony was put off until later in the week. Several western ambassadors said they would boycott the occasion.

It is understood that relations between Mr Iliescu, Mr Roman and Mr Victor Stanculescu, the defence minister, have deteriorated sharply over the past 48 hours.

Japan fails to settle dispute on emissions

By Robert Thomson in Tokyo

THE Japanese Government yesterday announced a new environmental policy on global warming, although an internal dispute left it unable to set a target figure for reducing carbon dioxide emissions.

Mr Toshiki Kaifu, Prime Minister, published the new policy yesterday, but the obvious indecision could be embarrassing for Tokyo, which is keen to play a greater international role on the environment.

The Government has yet to reconcile an argument between two ministries, the Environment Agency and the Ministry of International Trade and Industry (Miti), and intends to wait until at least the autumn to set a goal for carbon dioxide emissions.

Miti argues that Japan's emissions, the fourth highest in the world, must increase by about 1.3 per cent a year for the next decade if the country is to maintain economic growth. The Environment Agency wants to stabilise emissions at the present level by the year 2000.

The Government said an "appropriate goal" for carbon dioxide discharges could be announced later this year, but a senior Miti official emphasised that the government policy statement did not impose any obligation to set a target.

Japan plans to table the new policy at the G-7 summit in Houston next month. The Environment Agency and some senior politicians had hoped to release a carbon dioxide target figure at that meeting, which is expected to highlight environmental issues.

Under the policy, carbon dioxide emissions will be kept "as low as possible" and emission-reducing proposals and technology will be closely examined in the coming decade. But the policy cautions that a target must bear in mind Japan's "international economic role" and the "proper management of the economy."

A senior official at the Environment Agency said continuing debate over global warming would mean a "hot summer" for the Government, and policies announced by Britain and other European countries had put extra pressure on Miti.

"Many senior Japanese politicians would like Japan to play a big role in the environment movement and these politicians are hoping that Japan will not be regarded negatively on the global warming issue. Everybody in the ministries is aware of this feeling," the agency said.

But the senior Miti officer suggested that the disagreement with the Environment Agency was a matter of "nuance," and said the Government should set "a real target, not a political target" for carbon dioxide emissions.

Kaifu admits aide sold shares despite ban, Page 6

Saunders denies he considered suicide

By Raymond Hughes, Law Courts Correspondent, in London

MR Ernest Saunders yesterday denied that he had been brought to the verge of suicide by the strain of the Guinness affair.

"I may have contemplated many things, but suicide, never," the former Guinness chairman and chief executive said at Southwark Crown Court, London.

He was being cross-examined at the Guinness trial by Mr Michael Sherrard, QC, counsel for one of his co-accused, Mr Gerald Ronson, chairman of the Heron group.

Mr Saunders was dismissed by Guinness in January 1987 following allegations that he had been involved in illegal share-support payments made by the company during its takeover battle for Distillers, the drinks group, in 1986.

Mr Sherrard asked if Mr Saunders knew that in March 1987, "you were regarded as a very serious suicide risk."

Mr Saunders replied that he had not known that. Suicide, he said, had never crossed his mind.

He described as "quite scurrilous and disgraceful" suggestions by Mr Sherrard that in early 1987 "you put your vanity before the truth and began to tell lies," and that, since then, he had been "wriggling on your self-inflicted hook... accusing all who point the finger of criticism at you of being liars and worse."

At the end of 1986, suggested Mr Sherrard, "you went into a psychological nosedive of disbelief, incapable of accepting that you might, however innocently, have been a party to a serious breach of the rules."

Mr Saunders replied: "You are making up a very nice story here which may suit your book or that of your client, but it is simply not correct and I won't accept it."

Speaking of his "disgraceful" treatment by Guinness, which sacked him and cut him off without funds, he said it had been "the most brutally destructive act a corporation in this country has ever perpetrated against a former chairman." The trial continues.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	25	77	Dallas †	S	26	79	Madeira	S	21	70	Prague	F	25	77
Algiers	S	28	82	Dublin	C	13	55	Madrid	S	25	77	Reykjavik	C	13	55
Amsterdam	C	20	68	Dubrovnik	F	22	72	Majorca	S	26	79	Rhodes	S	25	77
Athens	F	26	79	Edinburgh	C	16	61	Malaga	S	29	84	Rio d'Janeiro		–	–
Bahrain	S	34	93	Faro	S	21	70	Malta	S	27	81	Rome	S	25	77
Barcelona	S	24	75	Florence	S	26	79	Manchester	R	14	57	Salzburg	F	22	72
Belfast	S	16	61	Frankfurt	R	18	64	Melbourne	C	12	54	S'Francisco †	Dr	13	55
Belgrade	F	24	75	Geneva	C	18	64	Mexico City		–	–	Santiago		–	–
Berlin	S	22	72	Gibraltar	S	25	77	Miami †	S	27	81	Seoul	R	19	66
Biarritz	S	23	73	Glasgow	C	14	57	Milan	R	21	70	Singapore	F	32	90
Birmingham	R	14	57	Guernsey	R	14	57	Montreal †	F	25	77	Stockholm	C	18	65
Blackpool	C	14	57	Helsinki	R	11	52	Moscow	F	20	68	Strasbourg	F	20	68
Bombay	C	31	88	Hong Kong	C	29	84	Munich	F	22	72	Sydney	C	11	52
Bordeaux	F	23	73	Innsbruck	F	23	73	Nairobi	F	22	72	Tangier	S	22	72
Boulogne	F	19	66	Inverness	R	14	57	Naples	S	26	79	Tel Aviv	F	26	79
Bristol	C	16	61	Isle of Man	F	14	57	Nassau		–	–	Tenerife	S	24	75
Brussels	R	20	68	Istanbul	F	21	70	Newcastle	C	15	59	Tokyo	S	29	84
Buenos Aires		–	–	Jersey	C	15	59	New Delhi	S	38	100	Toronto †	S	24	75
Budapest	S	24	75	Johannesburg	S	15	59	New York †	S	20	68	Tunis	S	30	86
Cairo	F	30	86	Las Palmas	S	24	75	Nice	F	23	73	Valencia		–	–
Cape Town	S	17	63	Leeds	C	15	59	Nicosia	S	26	79	Venice	S	24	75
Cardiff	C	16	61	Lisbon	S	23	73	Oporto	F	20	68	Vienna	S	23	73
Chicago †	S	22	72	Locarno	C	20	68	Oslo	R	15	59	Warsaw	F	21	70
Cologne	F	24	75	London	R	18	64	Paris	F	19	66	Washington †	S	22	72
Copenhagen	S	16	64	Los Angeles †	C	17	63	Peking		–	–	Wellington	R	13	55
Corfu	S	25	77	Luxembourg	C	17	63	Perth	S	16	61	Zurich	F	21	70

C–Cloudy. Dr–Drizzle. F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder.
† Noon GMT temperatures

West German Chancellor Helmut Kohl (left) and East German Prime Minister Lothar de Mazière in talks yesterday

Kohl publicly backs German union in 1990

By David Goodhart in Bonn

CHANCELLOR Helmut Kohl yesterday gave his first public backing to full political union of the two Germanys and all-German elections this year.

Addressing a Christian Democrat meeting in Bonn, he said that "1990 will be the year of German unity." Later on television he said that all-German elections in December were "highly probable."

Mr Kohl's statements follow last week's decision of the ruling Christian Democrats in East Germany to back all-German elections this year and a growing consensus in the West German coalition for unity this year.

The Social Democrats in both Germanys are less keen on unity or all-German elections in 1990 but seem increasingly resigned to the fact.

On Sunday night a special sitting of the East German Volkskammer unexpectedly debated a motion calling for immediate unity. The Volkskammer decided, however, to send it to a committee for discussion.

The Interior Ministry in Bonn yesterday added to the unity rush by announcing that, in co-operation with the East German authorities, it was preparing a complete overhaul of East German laws to fit with West German ones.

Talks on the external aspects of unification continued yesterday between Mr Hans-Dietrich Genscher, West German Foreign Minister, and Mr Eduard Shevardnadze, his Soviet counterpart, in Münster.

The Bonn coalition remains divided about one aspect of all-German elections: whether the West German 5 per cent barrier for small parties should apply to East Germany, too.

The Christian Democrats want to waive the rule to keep alive the right-wing German Social Union in East Germany.

Taiwan alters reserve policy

Continued from Page 1

stocks were all held in Taipei and were not being actively traded. "The central bank operation in gold is not for profit."

Mr Shieh added that in spite of downwards pressure on the New Taiwan Dollar, the central bank would intervene to maintain it at around its present rate of NT$27.50 to the US dollar. This was part of its policy of seeking to hold inflation at its current level of between 3 and 3½ per cent.

He said the period of rapid growth in Taiwan's reserves was also now over, as the private sector was exporting capital at a record rate. Some $7.5bn had left the country this year. In 1990 as a whole, capital outflows were likely to exceed the projected current account balance-of-payments surplus of $8bn-$10bn by a wide margin.

THE LEX COLUMN

Sketchley washes its dirty linen

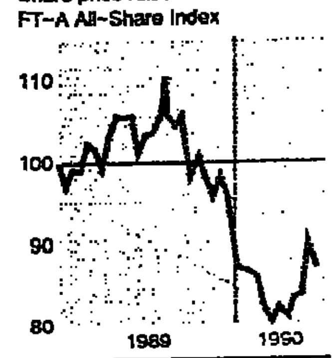
Shareholders in Sketchley have been kicked in the teeth so many times they must be sending out for dentures. The directors and advisers NM Rothschild told them to reject two bids on the basis of a £6m profits forecast. That forecast was compiled on the basis of accounting policies agreed with auditors KPMG Peat Marwick Mclintock. Now shareholders are told the forecast was wrong, the accounting policies were wrong and could the company please have £21m because it is in breach of its banking covenants?

Sketchley seems to have fallen prey to every vice of 1980s' management. The vending business overstretched itself while making acquisitions; the office services division lost its managing director immediately at the end of his earnout period. Shareholders can at least draw consolation from the fact that management, non-executive directors and advisers are all departing. While they can argue about their share of the blame, none emerge with any credit.

It is the nature of rescue teams to tell horror stories about the previous management. But a change in accounting policy which refuses to recognise the residual value of leased vending machines is not overly conservative; it is just sensible. Sketchley's businesses are still in a mess. Messrs Bloom and Richardson, the new management team, will have every opportunity to justify their high-flying reputations.

BET

Share price relative to the FT–A All-Share Index



BAA

When a company reveals much more than usual about itself, as BAA did yesterday in its annual figures, it may sound churlish to start complaining. But there is something strange about BAA's decision to put a value on its runways and terminal buildings. Not that there is anything suspect about the figure the external valuers have produced. At £3.96bn, or £7.65 per share, it is at the top end of what the City was expecting; but the details of the exercise, which valued the expected income stream from BAA's terminals on yields of about 8-10 per cent, sound sensible. The puzzle is to work out why BAA felt the exercise was necessary. It is startling too that BAA has chosen as chief executive, Sir John Egan, a manufacturer, rather than a manager with a successful record in the service sector.

In a sense, the asset valuation tells us nothing more than yesterday's excellent profit-and-loss figures. Given that BAA's terminals are not about to be auctioned off, it is academic that the current share price, at 428p, reflects only a fraction of their open-market valuation. More relevant are the facts that pre-tax profits will stagnate at about £290m this year and next due to capital spending at Stansted; and that the trend of passenger growth reinforces the view of BAA as the best *UK play on* world aviation, with the MMC as the only major potential pitfall.

The cynic's view, of course, is that the valuation is a pre-emptive strike against BAA's 9 per cent shareholder ADT. But if so, it would be like opening the Dom Perignon an hour before the guests arrive; and a shot in the foot, since it makes BAA's return on assets appear poor.

BET

For a company which spends so heavily on investor relations, BET must be wondering whether it is worth the effort. Its level of disclosure is better than most, its earnings are growing steadily and yesterday's full year results confirmed another healthy improvement in trading margins. Yet even on conservative assumptions, BET is selling on eight times earnings and yielding 7¾ per cent prospectively. Its gearing looks high, but its interest charge is covered 6½ times, and its balance sheet will be transformed when it eventually completes its planned disposals.

BET is haunted by its image of being a hyperactive acquirer, constantly diluting shareholders with share issues. However, it only increased its average equity base by 3 per cent last year and, if it is to be believed, is concentrating on *organic growth from now on.* This leaves the residual worry about its dependence for two-thirds of its core profits on a slowing UK economy. A UK service company is far less vulnerable to a strong currency than many and BET's domestic profits should be reasonably secure; otherwise the City will want some answers. BET is a safe and boring UK conglomerate and its shareholders suffer when it trys to pretend otherwise.

PSBR

Gilts investors have been living in ERM-induced euphoria for several weeks but yesterday's PSBR figures ought to have brought them down to earth with a bump. The UK's public sector finances are deteriorating with alarming speed. The running deficit after two months of the fiscal year is already £1.8bn and the government forecast of a £7bn surplus for the year looks a distant target. The poll tax seems to be having a double effect. It has increased spending through the increased grants made by central government in an attempt to cushion the impact on voters and it has reduced revenues because of the public's reluctance to pay up.

With some analysts estimating that the public finances could merely balance in 1990-1, it now seems to be a question of when, rather than if, the government will be issuing gilts this year. Mr Major will want to avoid a clash with November's electricity privatisation but ERM entry might provide just the right psychological moment to resume issuance.

ECC/Bryant

It takes two views to make a market, as ECC's placing of its near-30 per cent stake in Bryant, the housebuilder, makes clear. For the institutions who bought at 84p, one can see the attraction. A prospective yield of about 7 per cent, with not long to wait for the next dividend, since Bryant's financial year ended on May 31; and the knowledge that they are buying a quality company in lots of time to catch the full benefits of the next UK housing upturn. But ECC's attitude is also worth pondering. It has housebuilding of its own, and knows the market, so its decision to sell now suggests it does not think a proper recovery in the sector is just around the corner. The overall impression from the episode is that it is starting to make sense to pick up stock in *housing-related companies* selectively; but a solid rally in building shares is still some way off.

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday June 19 1990

INSIDE

Kirin makes its London debut

From today shares in Kirin Brewery of Japan will be listed in London. Together with a Paris quotation on June 29, the move is intended to *help internationalise* the image of a company which dominates beer sales in rural Japan and has thus been considered somewhat provincial. Robert Thomson talks to Mr Hideyo Motoyama, president of Kirin, about the ambitions of the Japanese brewer. **Page 24**

Orix buys rights to 74 Airbuses

Orix, the fast-growing Japanese financial group, is buying contract rights to acquire up to 74 A320 aircraft from Airbus Industrie, the European aircraft maker. Orix said the transaction was "a giant step" towards becoming the first Japanese company to make a substantial move into the operating lease business for aircraft. Stefan Wagstyl reports. **Page 24**

Sailing along on the crest of a wave

It was first won by the British steamer Great Western in 1838, and is currently held by the liner United States. Now, for the first time since 1952, an official attempt is being made on the Blue Riband for the fastest crossing of the Atlantic by a commercial ship. Today the revolutionary ferry, Hoverspeed Great Britain, sails from New York. Kevin Brown reports. **Page 31**

BET rises 19% to £322m

BET, the acquisitive UK services company, has been described as being in the "chore business," but daily drudgery appeares to have paid off. The group increased pre-tax profit by 19 per cent to £322.3m ($548m) for the year to March 31. **Page 28**

Treading familiar ground

Deutsche Unilever, the West German subsidiary of the Anglo-Dutch foods and soap powder conglomerate, is looking forward to resuming its place in eastern Europe. Up to the end of the Second World War, Unilever had its German headquarters in Berlin, owned a large margarine factory near Wittenberg and ran a string of fish shops throughout the area. David Marsh talks to Jürgen Schrader (above), chief executive, about the company's plans to return to the East German market. **Page 23**

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Bayer-Verein	395	+	20	Euromarche	4000	+	20
Brown Boveri	971	+	31	Sanofi	960	+	10
Hapag Lloyd	440	+	15	**Falls**			
Falls				Beghin-Say	854	−	26
Bayer	285	−	7.5	Chargeurs	1001	−	40
Hochtief	1375	−	15	Havas	634	−	11
Nixdorf	306	−	6	Locafrance	486	−	11
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Am Stl & Wire	7¼	+	1	Marantz Japan	1670	+	200
Chrysler	15⅝	+	¼	Nippon Felt	3060	+	350
Falls				Oriental Yeast	2100	+	290
Compaq Comp	123⅝	−	4⅝	**Falls**			
Proc & Gamble	82½	−	1⅞	Eagle Industry	1380	−	100
Software Tool	19	−	4⅞	Hakuyosha	1560	−	120
UAL	155⅝	−	1⅞	Toyo Bosuito	2160	−	190
LONDON (Pence)							
Rises				GUS A	1093	−	14
BAA	423	+	7	Legal & General	406	−	11
Clinton Cards	237	+	8	Logica	188	−	14
Evans of Leeds	263	+	13	NatWest Bank	334	−	7
Hornby	242	+	8	Priest, Marians	203	−	12
Pickwick	245	+	8	Rank Hovis	350	−	10
Speyhawk	195	+	56	Sedgwick	243	−	12
Falls				Sketchley	183	−	20
Barclays	367	−	6	Thames TV	485	−	7
Cooper (Alan)	150	−	15	Willis Faber	282	−	10
Davy	250	−	11				
Enterprise Oil	646	−	12				

Volvo seeks Dutch share in car group

By **Kevin Done**, Motor Industry Correspondent, in London

VOLVO, the Swedish automotive group, hopes to implement a takeover of Volvo Car BV, its associate company, by the end of the year.

Mr Pehr Gyllenhammar, the Volvo chairman, has written to the Dutch Government setting out a timetable to complete negotiations for its majority share by the end of September.

Volvo holds only 30 per cent of Volvo Car BV, which is 70 per cent owned by the Dutch Government.

The company manufactures all the Volvo group's medium-sized 300 and 400 series cars and last year accounted for 133,300 of the Swedish group's total car output of 414,000.

The Dutch operation was created from the former DAF Car business, in which Volvo acquired a 33 per cent stake at the end of 1972.

Volvo Car BV has had a chequered history in the face of severe financial pressures.

Initially, Volvo increased its share, rising to 75 per cent by 1975 and renamed the company Volvo Car BV. Mounting losses in the second half of the 1970s forced it to reduce its stake, however.

The Dutch Government took a 70 per cent majority stake in 1981 as part of a rescue operation to refinance the company.

Government financial support for Volvo Car BV has amounted to Fl 800m ($432m).

Volvo said yesterday that it wished to take full control of the Dutch associate in light of its proposed alliance with Renault of France.

Renault and Volvo plan to exchange significant minority stakes in their respective car and truck operations.

Volvo said that the aim of the planned takeover of the Dutch associate was to "achieve a joint business and product strategy supported by one organisation structure," while retaining the group's industrial bases in Sweden, the Netherlands and Belgium.

Mr Roger Holtback, head of Volvo's car operations, said that it was important to co-ordinate the Dutch branch to strengthen the company's presence in the medium-sized car segment of the European market.

Volvo Car BV is already closely linked with Renault, which supplies all the engines and transmissions for the Dutch-produced Volvo 400 and 300 series cars.

Volvo Car BV is still only a very small producer of medium-sized cars and is dangerously dependent on the UK market.

BBV to buy Lloyds operations in Portugal

By **Patrick Blum** in Lisbon and **David Lascelles** in London

AFTER 128 years in Portugal, Lloyds Bank of the UK is to sell its operations there to Spain's Banco Bilbao Vizcaya (BBV).

A letter of intent to that effect was signed yesterday morning by the two banks and negotiations are expected to be completed "within a few months," a Lloyds official in Lisbon said.

The price of the transaction was not disclosed, but bankers in Lisbon say the deal would give BBV a strong position in Portugal. "Lloyds has few branches but they are well placed... it is a very good move for BBV," one local banker said.

Lloyds is the longest-established foreign bank in Portugal. It has 12 branches in key areas around the country, including its headquarters in Lisbon, and had planned to expand its retail network to about 20 branches within the next three years.

Its expansion strategy had met some resistance from the authorities in Lisbon. However, the official said that was not the reason for Lloyds' departure.

"The group wants to concentrate more on the UK market and strengthen its capital base there," the official said.

In addition to servicing the large British community in Portugal, Lloyds also has established a strong base among high-net-worth corporate and private Portuguese customers.

In Portugal, it had total assets worth Es76.6bn ($490m) at the end of 1989 and made profits of about Es300m.

During the past three years, Lloyds has been cutting back on its international operations, including those in the US and Canada. Further retrenchment is likely, the official said, citing the impact of bad Third World debt.

In London, Mr Brian Pitman, Lloyds' chief executive, said BBV had approached Lloyds about the sale. Lloyds accepted the offer, he said, because it would be able to serve its clients in Portugal through its correspondent banks, while reinvesting proceeds from the sale in its core business.

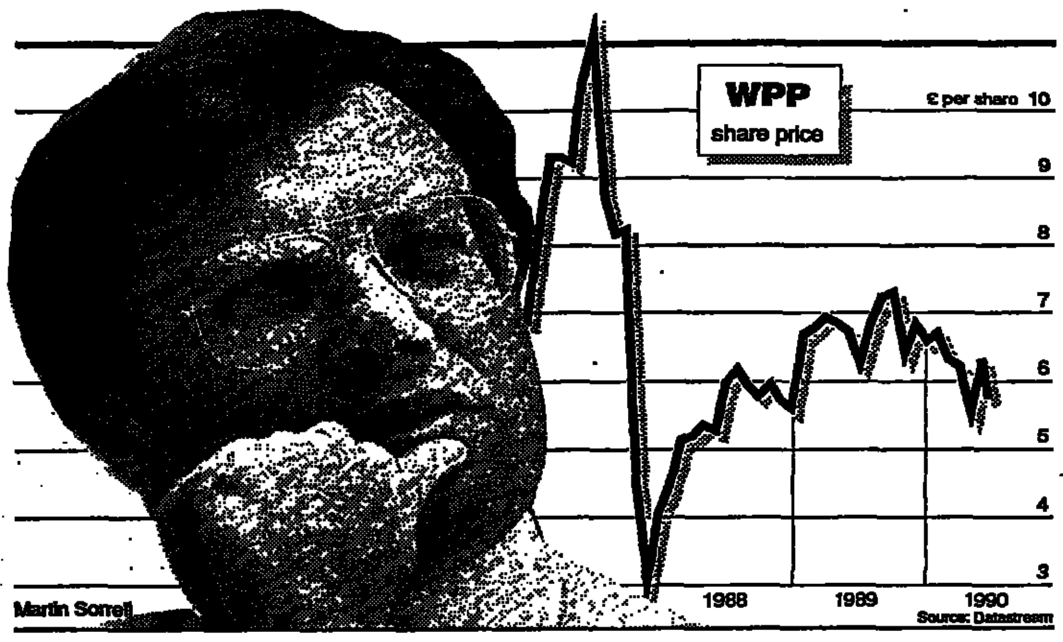
Spanish banks have been expanding rapidly in Portugal, raising fears about the domestic industry's ability to withstand the growing foreign competition.

Banesto, a leading Spanish banking group, has become a major shareholder in Banco Totta e Acores, which was partly privatised last year.

Earlier this year, Spain's Banco Santander took a major share in Banco de Comercio e Industria.

Ogilvy struggles to swallow WPP medicine

Alice Rawsthorn looks at the success, and failure, of the Sorrell formula



Martin Sorrell

IT IS now a year since Mr Martin Sorrell's WPP Group turned itself into the biggest single force in international marketing services by buying Ogilvy & Mather, one of the grand old US advertising agencies, for $864m.

Ogilvy was a deal that no one wanted Mr Sorrell to do. Ogilvy's management was against it. Mr David Ogilvy, the agency's founder, castigated Mr Sorrell as an "Odious Little Jerk" from his 12th century *chateau* outside Paris. The advertising industry was against it. Mr Charles Saatchi, Mr Sorrell's old employer at Saatchi & Saatchi, even telephoned Ogilvy to offer his help.

The City of London was against it. The stock market was already awash with WPP shares after its $566m bid for J. Walter Thompson (JWT), another big US agency. The market had also been shaken by Saatchi's profit warning earlier that summer. The JWT deal had gone remarkably well. Its margins had risen from 4 to 10 per cent and a $100m windfall from the sale of its Tokyo office had worked wonders for WPP's balance sheet. The City wanted Mr Sorrell to wait.

Even history was against the deal. Saatchi and Interpublic, two of the four global marketing services groups, were almost destroyed by their attempts to create second international advertising agencies. WPP risked the same fate with Ogilvy.

Mr Sorrell was undeterred. Ogilvy, he says, was "too good a chance to miss." He burdened his balance sheet with £294m ($500m) of debt and a £214m convertible preference issue. A year later Mr David Ogilvy is ensconced as non-executive chairman of WPP. And the initials "OLJ" stand beside Mr Sorrell's telephone extension in its annual report.

The immediate challenge after the acquisition was to improve Ogilvy's financial performance to reduce the debt incurred in the acquisition. Mr Sorrell also had to raise morale, which had been badly damaged by the takeover.

The Sorrell management style is limited to finance. Advertising agencies, he says, are best run by advertising executives and should be left to their own devices. His approach had worked well at JWT, but that agency had been so mismanaged that it was easy to rationalise. Ogilvy was more challenging in that it was relatively well run.

He began by introducing WPP's financial systems, which involve setting highly-detailed, two-year rolling budgets. In practise, this means that Mr Graham Phillips, Ogilvy's chief executive, once had a "general entertainment" budget, and now has budgets for particular areas like "dinner with clients." Mr Sorrell says the degree of detail encourages "people to look at every dollar and cent."

Ogilvy's costs have since been cut by about 4 per cent, or $30m, since the takeover. The cuts have come from central areas, like the legal and accounts departments. Ogilvy's margins rose by 2 per cent to 10 per cent last year. They are expected to increase to 12 per cent this year. Mr Phillips is confident that Ogilvy can meet that target. It will do so, he says, without cutting costs in any areas related to client service.

The critical question for Ogilvy is whether it will be expected to increase margins further. Any additional cuts could affect the standard of its service, given that the only other areas for potential improvement are Research International and the Sage sales promotion companies, two poorly-performing subsidiaries. Ogilvy might then run the risk of losing accounts.

Mr Sorrell maintains that he will be "perfectly content" with margins of 12 per cent. His critics in the City suspect problems could arise if other parts of the WPP Group started to suffer and he had to compensate by crunching cash out of Ogilvy to service its debts; or if Ogilvy lost momentum in terms of revenue.

So far, there is no sign of this happening. Mr Neil Blackley, an analyst at James Capel, the London stockbroker, expects WPP's pre-tax profits to rise from £75m to £112m this year. Ogilvy is expected to show revenue growth of 10 per cent. Its ad agencies alone have already won more than $300m in new business this year despite the sluggish US and UK advertising markets.

In operational terms, Ogilvy's executives are benefiting from the introduction of WPP's financial systems. One divisional head said he now receives information "in days, rather than weeks."

The only ominous sign is that morale is still low. Ogilvy is a company with an exceptionally strong corporate culture. The senior executives of the New York agency play the bagpipes each Christmas in homage to Mr Ogilvy's Scottish origins. Its offices are carpeted in red, the same colour as the founder's braces. Ogilvy's employees were proud of their independence and bitterly resented the takeover.

Mr Sorrell's "hands-off" style has helped to allay their resentment. Mr Phillips insists that he has not run the business any differently under WPP than if it had remained independent.

But Ogilvy has suffered a series of senior staff departures. No one was surprised when Mr Ken Roman, who had led the battle against WPP, resigned as chief executive a few months after the takeover. But last month's resignations of Mr Peter Warren and Mr Hans Lange, both long-standing employees, as chairman and vice chairman of Europe, came as a shock to a company which prides itself on offering jobs for life.

Mr Sorrell's critics cite the resignations as evidence that a purely financial approach is not appropriate in a people business such as advertising. "You cannot run an agency by budgets, budgets, budgets," says Mr Brian Sturgess, an analyst at BZW in London, who is about to publish a bearish circular on WPP.

The critics also suspect that WPP debt could force Mr Sorrell to squeeze Ogilvy. When WPP's annual report was published last week, the discovery of an £80m provision for unused office space at Ogilvy's New York headquarters fuelled their worst fears. WPP's shares suffered, despite warnings from analysts that the market was over-reacting.

Mr Sorrell is still bullish. He sees Ogilvy as a success both in terms of its improved financial performance and its contribution to the WPP Group. "A year on, one is even more impressed by the depth of Ogilvy's thinking," he says. "I would call Ogilvy the opportunity of a lifetime. But we said that about JWT."

Pargesa plans to sell 62% stake in UK merchant bank

By **David Lascelles**, Banking Editor, in London

THE PARGESA group of companies is putting up for sale its collective 62 per cent holding in Henry Ansbacher, the London merchant bank.

The decision marks a further divestment from the financial services market by the Belgian-based group which includes Pargesa Holdings, Groupe Bruxelles Lambert and Banque Internationale à Luxembourg. It also presents would-be buyers with a rare opportunity to buy into the City of London merchant banking business.

Pargesa, which is controlled by Mr Albert Frère and Mr Gérard Eskenazi, said yesterday that the move to dispose of the stake resulted from a strategic review of its investments. Ansbacher, it stressed, "is today a strongly capitalised, profitable, well-managed organisation with capital and cash resources well in excess of its current and reasonably anticipated requirements." Pargesa first took a 30 per cent stake in 1984 when Ansbacher was going through a major phase of expansion, but it was forced to bail the merchant bank out of large losses in the years that followed, at a total cost of more than £100m ($170m).

Since then, Ansbacher has mounted a steady recovery by divesting itself of unprofitable activities and building up its banking business.

Its main operations now are merchant banking and offshore trust banking. It made £10.1m before tax in 1989, up from £7.2m. Net assets at the end of the year were £129m.

Mr Richard Fenhalls, the chief executive of Ansbacher, said yesterday that Pargesa had been "enormously supportive." He has agreed to stay on after the sale.

Under the Takeover Code, a buyer would have to make a bid for all shares in Ansbacher. Shares were unchanged at 78p on the news yesterday, placing the bank's value at £145m. This implies a value of £90m for the Pargesa stake, which is below the cost of its investment.

Pargesa has already sold its remaining interest in Paribas (Suisse) and other stakes held by Parfinance, its French subsidiary.

● Groupe Bruxelles Lambert's decision to sell its stake was seen by analysts yesterday as further evidence of a change in the strategy of the Belgian holding company, writes Lucy Kellaway in Brussels.

Following the collapse of Drexel Burnham Lambert in February, in which GBL and Pargesa jointly lost some $200m, Groupe Brussels Lambert appears to have abandoned its ambition to build an international financial group made up of majority holdings in merchant banks.

Sir John Egan will join BAA

By **Paul Abrahams** in London and **Bernard Simon** in Toronto

SIR JOHN EGAN, the chairman of Jaguar, the UK luxury car manufacturer recently sold to Ford, is to become the chief executive of BAA, formerly the British Airports Authority.

The move, which came as a surprise to both the City of London and senior executives at BAA, fuelled speculation that Sir John may replace Sir Norman Payne, chairman of BAA. Sir Norman, who has been with BAA since 1965, shepherded the company through privatisation in 1987. His contract is due to expire in July next year.

The announcement was made in London yesterday at the same time that it emerged that BAA was bidding to redevelop and run Toronto airport in the company's first such move abroad. BAA is also bidding to run Budapest airport which is hoping to become a hub for eastern Europe.

BAA also announced a 29 per cent increase in pre-tax profits from £198m to £256m ($435.2m) for the year to March 31. The result was above expectations.

Analysts said the results were sparkling but were concerned the gains would antagonise airport users in the build-up to a statutory quinquennial review into the company's operations by the UK's Monopolies and Mergers Commission.

They warned, however, that the cost of the company's capital expenditure programme would slow profits' growth for the coming two years. Next year BAA plans to open a new terminal at Stansted, north of London, capable of handling 8m passengers. However, in the short term, analysts believe that the downturn in the UK air charter market may reduce the number of companies wanting to operate out of the new facilities.

In a separate development, five groups, one of which includes BAA, have expressed interest in an C$800m ($690m) project to redevelop and manage the two existing terminals at Toronto's Pearson International Airport.

The Canadian Government, which presently owns and operates the airport, has yet to call for formal bids for the terminals. But an earlier decision to allow private sector development of a third terminal, due to open later this year, has sparked a heated competition to take over other facilities at the airport, which is the world's 25th busiest.

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VIEWPOINT

The Commerzbank report on German business and finance

A sober look at West Germany's public-sector deficit

The sharp rise in German bond yields reflects concerns that German unity will mean not only higher inflation but also a larger budget deficit. Are concerns about the latter justified? In order to answer this question, we must analyse a number of interrelated factors. Some can be influenced by political decisions; others are hard to judge at present.

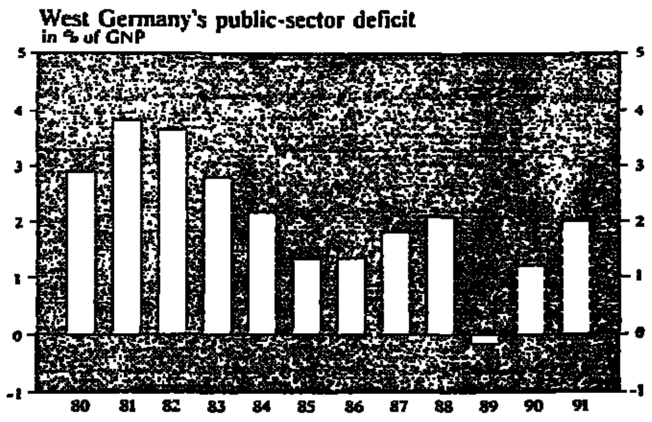
The first factor involves the rate of economic growth and price trends, which determine the level of tax receipts. Here the situation in 1991 should be favourable. While the public-sector deficit – including that of the social security system – will rise this year by some DM 25 to 30 billion, mainly due to the recent tax reform, it would have declined sharply next year if no extra spending had been needed for East Germany. Tax revenues will increase again substantially because there will be no more impact from the tax cuts and the economy will continue to expand strongly. In fact, the added input of the East German economy should cause nominal GNP to rise by an extra 1½ to 2 percentage points.

Assessing the costs

The cost to West Germany of merging East Germany's economy with its own is the second key issue. Any estimates here would be purely conjectural, as it is hard to predict how East Germany will fare after economic and monetary union. Moreover, a number of important political decisions have yet to be taken in Bonn and East Berlin. However, it is clear that costs will be incurred through the introduction of the monetary union itself, the creation of a social security system along West German lines, improvements to the country's infrastructure and environmental measures – and, perhaps, temporary financial aid to East German firms to ease the process of adjustment.

The financial burden will probably be heaviest during the second half of 1990 and in 1991. As regards social security, the bulk of outlays will be needed to raise old-age pensions from their current low levels and also to shore up the unemployment insurance scheme. Although the precise amount required here will depend on the level of unemployment, a total of about DM 20 billion should be needed for social security in general, some of which can be financed by East Germans' contributions. How quickly the country's infrastructure should be modernised and its economy made more "environmentally friendly" is a matter for the politicians to decide. But the scale on which private investors are attracted will be determined in large part by the pace of such modernisation efforts. Initially, annual outlays in this area could amount to DM 10 to 20 billion.

West Germany's public-sector deficit
in % of GNP



A closely related point is the extent to which East Germany itself can shoulder the burden of restructuring its economy. Its most important contribution will certainly be to create the legal and other prerequisites for large-scale private investment and make it possible to tap the country's entrepreneurial potential. In financial terms, it will initially contribute little, as its tax and social insurance systems, including their administrative procedures, must be completely overhauled. In 1991, East Germany may have a budget deficit of between DM 40 and 60 billion, depending on the scale of West German assistance.

Finally, West German decisions on spending and revenues must also be taken into account. The Government has repeatedly stated that tax increases are neither necessary nor planned: as indicated above, stronger economic growth should boost revenues, and outlays of some DM 30 billion per year, which are a direct consequence of the division of Germany, could be eliminated in the medium term. Moreover, spending could be cut in other areas as well.

All in all, the general budget deficit should rise to 1.3% of GNP this year and to about 2% in 1991 – hardly a high figure either by international standards or for West Germany itself, particularly in view of its substantial savings ratio. It would most certainly not warrant bond-market yields of 9%.

INTERNATIONAL COMPANIES AND FINANCE

Forced into flight plan of merger

Caribbean carriers may join forces to survive, writes Canute James

Several Caribbean airlines, burdened by high operating costs and mounting losses, are contemplating a merger to create a single regional carrier. If this is successful, the new company plans to seek a partner from among the major international carriers.

The Governments of the English-speaking Caribbean states which own the five airlines being considered for the merger are eager to remove the companies from the pressured national budgets.

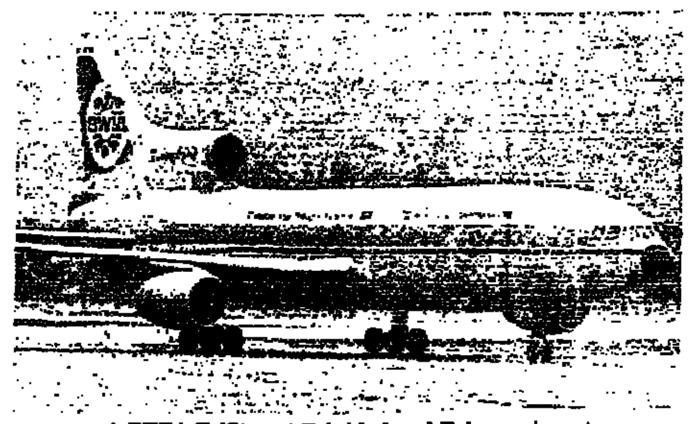
But while some appear more enthusiastic than others, they have all concluded that co-operation is needed to cut their losses and to fight increasing competition from more efficient carriers.

Mr Karl Hudson-Phillips, chairman of BWIA of Trinidad and Tobago, and one of the more fervent advocates of the merger, said many of the world's major airlines were being driven to join forces by higher operating costs and consumer resistance to higher prices.

He pointed to the merger of Air France and UTA; collaboration between Scandinavian Airlines System and Swissair and between Air France and Lufthansa; British Airways' interest in United Airlines; share swaps between Delta and Singapore Airlines; and the impending merger of LAV and Viasa of Venezuela to create a single company.

"While the larger airlines of the world get together," Mr Hudson-Phillips contended, "we in the Caribbean are still fervently guarding our separate tiny air solitudes."

The five airlines which are being considered for the merger have unenviable financial histories. For BWIA, Air Jamaica, Leeward Islands Air Transport (LIAT), Guyana Airways and Caricargo, one common factor has been accumulating losses.



A BWIA TriStar at Trinidad and Tobago airport

BWIA, the region's oldest carrier, recorded a $29.2m loss in 1987, according to the latest available figures. With a fleet of Lockheed TriStars and DC9s, the company flies routes within the Caribbean, and links the region with North America and western Europe.

Air Jamaica, established 21 years ago, which operates a fleet of four Airbus A300s and four Boeing 727s, recorded a $19m loss last year, bringing accumulated losses to $38m. The financial problems could worsen unless the company is successful in obtaining relief from outstanding fines of $38m levied by US Customs after narcotics were found on flights arriving in the US from Jamaica.

LIAT, which is owned by the Governments of the Caribbean Economic Community, island-hops in the eastern Caribbean with a fleet of British Aerospace 748s and De Havilland Dash 8s. The airline is carrying accumulated losses of $11m and its operating deficits have had to be met by increasingly exasperated Governments.

Caricargo, a cargo carrier owned by the Governments of Trinidad and Tobago and Barbados, is saddled with debts of $39m. A merger with other airlines would spare the owners from a harsh decision. Trinidad and Tobago wants to pull out, while Barbados has said it cannot continue subsidies.

Guyana Airways, while recording a small profit in local dollar terms last year, is "in the red in foreign exchange terms" according to company officials. The company has had difficulty running an international service using only one aircraft, a 24-year-old Boeing 707.

The need for the region's Governments to reduce their involvement in the airline industry, said Mr James Mitchell, the Prime Minister of St Vincent, will become more apparent after 1992.

The creation of a single European market and the deregulation of European air travel to the Caribbean, he said, will bring increased competition from airlines. These will be more efficient than those now run by the region's Government.

"Consider what this would mean," said Mr Hudson-Phillips of the proposed merger. "No other region in the world has the basket of route rights we do in the Caribbean.

"We have BWIA to London, Stockholm, Frankfurt, Zurich, Miami, New York and Toronto. We have Air Jamaica to Los Angeles, San Francisco, Atlanta and New York. LIAT has rights to fly to North America, and Guyana Airways to Rio de Janeiro, Brasilia and Buenos Aires."

If the region's Governments agree on a merger, they may have to start without Air Jamaica until the airline has completed a restructuring begun two months ago.

Mr Robert Pickersgill, Jamaica's utilities and transport minister, said: "We are not giving active consideration now to being part of a single regional airline. I have already indicated to my colleagues from other countries that Air Jamaica is now seeking an agreement with a foreign partner to hold some equity in the company.

"We could derive some benefits from shared services and technical co-operation with other airlines in the region, but the Government's policy at the moment does not include any participation by Air Jamaica in the proposed merger."

This is not likely to stop the other companies from moving to create a unified carrier.

Mr Mitchell has concluded that none of the Caribbean Community Governments has the money to write off the debts of LIAT. It is expected that the Governments which own the airline will support a merger with BWIA – which Mr Hudson-Phillips sees as the first step in establishing the new carrier. The next step would be to bring in Guyana Airways, he suggested, and then Air Jamaica and Caricargo. "When this is done," he said, "we could approach the international market for foreign investment."

Pru-Bache to sell retail division

PRUDENTIAL-Bache has become the second US securities firm this year to retreat from the retail business in Canada with an agreement to sell its retail division to Burns Fry, the Canadian affiliate of California's Security Pacific Corporation, writes Bernard Simon in Toronto.

The deal involves most of Pru-Bache's 700 staff in Canada, and will double Burns Fry's retail sales team to 500. Up to 190 of Pru-Bache's employees will be laid off.

Terms of the deal were not disclosed. According to local estimates, Pru-Bache suffered a loss of C$26m (US$22m) in Canada in 1988 on revenues of C$88.7m. Assets totalled C$223m.

Mr George McGough, Pru-Bache Canada's chief executive, said the company would continue its cross-border investment banking activities.

The fragile mood of individual investors has encouraged a substantial restructuring of the Canadian retail securities business in recent months. Merrill Lynch has sold its Canadian retail operations to Wood Gundy, while two medium-sized retail-oriented firms, Walwyn and Midland Capital, agreed to merge operations.

Security Pacific is in the process of raising its interest in Burns Fry from 30 per cent to 49 per cent. Burns has substantially expanded since the SecPac investment two years ago, which brought it into a group that also includes Britain's Hoare Govett.

Burns Fry earned C$13.2m last year on revenues of C$307.4m.

One-off sales put National Semi in black

By Louise Kehoe in San Francisco

NATIONAL Semiconductor, struggling to regain profitability, ended its fiscal year with a small net fourth-quarter profit boosted by special credits, but recorded increased losses for the year as a whole.

The semiconductor chip manufacturer reported net earnings of $4.7m or 2 cents a share for the quarter ended May 27, compared with earnings of $77.1m or 73 cents in the same period last year.

The latest figures included one-time credits of $8.9m, including $4m from the sale of a facility in Singapore. The previous year's earnings included a one-time gain of $174.9m from the sale of a mainframe computer subsidiary to Hitachi Data Systems.

Sales from continuing operations for the latest quarter were a record $456.3m, up from $419.1m.

The year saw a net loss of $25m or 34 cents a share, compared with $23.2m or 32 cents.

Victoire and Laurentian in deal

GROUPE Victoire, Europe's fifth largest insurance group and a subsidiary of Compagnie Financière de Suez, is buying a 50 per cent interest in the Laurentian Group's property and casualty unit based in Montreal for C$125m (US$106.9m), writes Robert Gibbens in Montreal.

Laurentian Group has been seeking a partner to help expand its general insurance subsidiary, Laurentian General, for several months. The Canadian market has become highly competitive as other European companies such as Axa have moved in aggressively.

Victoire, with assets of C$33bn, and Laurentian Group will each own 50 per cent of the new holding company, which in turn will own most of Laurentian General, valued at C$250m. Management of Laurentian General will remain unchanged under the leadership of Mr Jean Bouchard, chairman.

Victoire now holds 20 per cent of Laurentian Group, and has helped it become Canada's fourth largest integrated financial services with assets of C$16bn and with subsidiaries in the US and UK.

Laurentian General has assets of C$657m and 1989 annual growth premium income was C$433m.

Hewlett and Apollo move to merge workstation line

By Louise Kehoe in San Francisco

HEWLETT-PACKARD yesterday moved to merge its computer workstation product line with that of Apollo Computer, the company it acquired in May 1989, in a bid to claim leadership in the $5.8bn computer workstation market.

The new product range, called the H-P Apollo 9000 series 400, is compatible with previous products from both H-P and Apollo. Its success is seen as a critical test of H-P's ability to capitalise on the $500m Apollo acquisition to boost its role in one of the fastest growing segments of the computer market.

"During the year since the H-P/Apollo merger, we have combined and leveraged the technological capabilities of both companies to complete the first phase of our merger product strategy," said Mr Bill Kay, general manager of H-P's Workstation Group.

According to market analysts, however, H-P has lost ground in the workstation market over the past year. While the combined market shares of H-P and Apollo were about 30 per cent in 1988, they now stand below 25 per cent, according to International Data Corporation, a market analysis company.

The new H-P workstations range in performance from 12m to 26m instructions per second, placing them in direct competition with Sun Microsystems and Digital Equipment products. H-P has aggressively priced its new low-end workstation at under $5,000.

INTERNATIONAL COMPANIES AND FINANCE

Framatome calls on CGE to withdraw

By William Dawkins in Paris

FRAMATOME, France's nuclear plant builder, yesterday intensified its fight against the bid for control by Compagnie Générale d'Electricité (CGE), the telecommunications and engineering giant.

Senior Framatome executives called on CGE to withdraw rapidly from the company in which it took a 52 per cent stake last week, the climax of an unusual power struggle over a partly state-owned company.

The strategy of Mr Pierre Suard, CGE's chairman, was at odds with Framatome's interests and CGE's arrival as the largest shareholder was beginning to jeopardise negotiations for international contracts, the executives said.

"We are in a total deadlock ... we don't want a shareholder who does not have the company's interests in mind," said Mr Marcel Chabrillac, vice president for nuclear operations. And Mr Bernard Jale, social affairs director, said: "We are not dogmatic. We just have a feeling that today they should exit."

The outburst came as a formerly divided Government continued to seek a compromise in which the state would regain control. Some commentators see the Paris Administration's problems in making up its mind about Mr Suard's challenge as a sign of lack of clarity in French industrial policy. However, senior officials argue that the Government has always felt that such a strategically sensitive company should stay under public control.

Until CGE increased its stake from its old level of 40 per cent, state-owned bodies held the power at Framatome, with a combined 45 per cent. That balance had existed since 1985, when CGE – then state-owned – first became a Framatome shareholder.

Crédit Lyonnais, the state-owned bank, is looking for industrial investors to buy CGE's stake, and has been in contact with Mr Suard for several days, although CGE officials say they have not received a firm offer.

Bouygues to buy 85% of Losinger

By William Dullforce in Geneva

BOUYGUES, Europe's biggest contracting group, is buying 85 per cent of Losinger, Switzerland's second biggest construction company, for an undisclosed sum.

The purchase, which is subject to the approval of the Swiss authorities, appears to form part of the strategy, announced by Mr Martin Bouygues last month to reinforce the French conglomerate's positions in Europe, although at the time he singled out the UK and West Germany as targets.

Losinger reported gross revenues of SFr755m ($524m) in 1989, up from SFr658m in the previous year, and posted a net profit of SFr6.1m. Roughly 40 per cent of the revenue was generated outside Switzerland.

A family owned concern, Berne-based Losinger was rescued in 1983, after the downturn in European contracting business had forced it into the red, by Enserch Corporation of Dallas, Texas, and Union Bank of Switzerland.

Enserch is now selling its 60 per cent interest and UBS the stake which it had recently boosted to 35 per cent by taking over the remainder of the Losinger family interests.

Losinger returned to the black in 1987. It specialises in tunnelling and pre-stressed concrete constructions, has developed an interesting US operation and has secured some important orders over the last two years, notably a sub-contract for the Great Belt bridge project in Denmark.

At the end of March Losinger's order book totalled SFr815m. Bouygues said it intended to promote both its international and Swiss operations and would transfer technology, to enable it to win new markets.

The Swiss company's balance sheet shows registered and bearer share capital of SFr40m, a SFr30m subordinated loan from Enserch and some SFr30m in participation certificates.

Swedish group may bid for Speyhawk

By Andrew Hill in London

NORDSTJERNAN, the listed Swedish real estate and construction group which owns 5 per cent of Speyhawk, is in talks with the British commercial property company which may lead to a bid.

Yesterday's 26-word announcement from Speyhawk confirmed that "preliminary discussions" were in progress and prompted a 40 per cent leap in the group's share price in London, from 139p to 195p. At that price Speyhawk is worth nearly £51m ($87m).

The British company refused to add to the statement, which did not name Nordstjernan as the possible bidder.

However, it is understood that the two companies have been in contact for some time.

This is the second time in three months that a Swedish company has sought closer links with a British property group. In April, SPP, Scandinavia's largest insurance group, made a £500m bid for London & Edinburgh Trust. The offer was recommended by the Beckwith brothers, who founded LET and owned 20.5 per cent of the company, and represented a 20 per cent discount to LET's net asset value.

Nordstjernan will have to persuade Speyhawk's ebullient chairman, Mr Trevor Osborne, to give up the 22 per cent stake he and his family trusts own.

As recently as February, Speyhawk's shares were trading at 355p, but the general depression hanging over the UK property market has since pushed the price down as low as 106p, to Mr Osborne's irritation. That compares with net assets estimated at more than 530p a share.

At the end of last month, Speyhawk announced a 40 per cent drop in interim profits, although turnover was up.

Pharmacia plans to sell its Finnish subsidiary

By John Burton in Stockholm

PHARMACIA, the Swedish pharmaceutical group, yesterday announced that it planned to sell Wallac, its Finnish diagnostics subsidiary. It has retained N. M. Rothschild & Sons to auction the company for at least $150m.

In preparation for the sale, Pharmacia said it would restructure Wallac in an effort to increase its profitability. The disposal is part of Pharmacia's strategy of streamlining its diagnostics division.

The division's return on capital was less than 10 per cent in 1989, which the company said was "unsatisfactory," although its sales increased by 36 per cent to SKr1.6bn ($261m). Pharmacia suffered a 21 per cent fall in profits after financial items to SKr762m on sales of SKr7.5bn last year.

Wallac, based in Turku, has a workforce of 500, and is a market leader in analytical isotope measuring instruments.

Pharmacia said yesterday that the restructure would divide Wallac into three profit-centre units.

Profits down at Metsä-Serla

METSA-Serla, one of Finland's largest forest groups, reported a sharp fall in profits after financial items for the first four months of 1990 to FM101m ($25.4m) from FM380m in the same period of 1989. Operating profit fell to FM274m from FM379m, writes Enrique Tessieri.

Investments rose to FM2.6bn, of which FM1.3bn was spent in acquiring a 30 per cent stake in United Paper Mills, the country's fourth largest forest group, which will be merged with Rauma-Repola, an engineering and forest group, to form Repola, Finland's largest industrial group.

Separately, Rauma-Repola announced a sharp drop in profits before appropriations and taxes during the first four months of this year to FM40m from FM282m a year earlier.

An opportunity from unification

Unilever's W German arm is stretching east, writes **David Marsh**

Deutsche Unilever, the West German subsidiary of the Anglo-Dutch food and soap powder conglomerate, is gearing up for an assault on the rapidly opening East German market. However, it will be a gradual campaign calling for carefully-considered tactics rather than any headlong rush.

The company is already Germany's largest food group, with turnover of DM8.6bn ($5bn) last year, of which 70 per cent was in foods, 12 per cent in detergents and cosmetics, 10 per cent in packing materials and 8 per cent in chemicals.

According to Mr Jürgen Schrader, Deutsche Unilever's 58-year-old Hamburg-born chief executive, the addition of 16m East German consumers adds up to "a very welcome chance for growth in our markets." He sees particular chances in areas such as fats and detergents which are showing signs of saturation in the Federal Republic.

Unilever – like the rest of West German industry – is cautious over the short-term prospects. Mr Schrader expects "two difficult years" in East Germany after economic and monetary union on July 2. But, longer term, Mr Schrader sees unification increasing Unilever's German business by 25 per cent.

Deutsche Unilever owns more than 30 factories in West Germany, and has a long history of involvement in East Germany. Until the end of World War Two, Unilever maintained its German headquarters in Berlin, owned a large margarine factory in Pratau near Wittenberg and also ran a string of fish shops throughout the area, belonging to its Nordsee subsidiary.

Mr Schrader is doubtful whether Deutsche Unilever will want to move its head office back to Berlin from its current site in Hamburg. But his company has been in touch with the Magdeburg Kombinat (state-owned company), which now runs the Pratau margarine factory, about a possible joint production or licensing link-up.

Jürgen Schrader: welcomes the chance for growth

Lodging legal claims to recover pre-1945 assets in East Germany is clearly not one of Mr Schrader's priorities. But he says that the company's experts have discovered that the Pratau factory is still recorded as owned by Unilever in the official East German property registry. Despite a wave of state appropriations, the East German authorities – to Unilever's "great surprise," Mr Schrader says – never bothered to alter the ownership records.

Deutsche Unilever was given the go-ahead by its parent company at the beginning of the year to take responsibility for expanding its business in East Germany. It has been gradually building up contacts and outlets around the country, and has also been assembling a sales force and accounts team there.

In previous years, Unilever sold an annual DM10m worth of products to East Germany through the hard currency Intershop network – "peanuts," says Mr Schrader. Most of these goods were sold through the parent company's international trading department.

Now, Unilever wants above all to accompany the West German food retailing chains such as Tengelmann, Rewe and Spar which will be setting up in East Germany in the second half of the year. In the first six months of 1990, Deutsche Unilever reckons to have increased its East German turnover to DM60m, with the proceeds placed in East German Mark accounts.

Pricing and accounting will become simpler once the D-Mark is brought in as legal tender on July 3. But doubts about the ease of access of West German products to the East German market make Mr Schrader circumspect about his turnover forecast for the whole year. It will probably be between DM120m and DM160m, he believes.

The East and West German Agriculture Ministers recently announced a series of quotas for entry of agricultural products as part of efforts to protect the East German economy from more efficient producers in the West. Mr Schrader believes his West German plants are about three times more productive than equivalent East German factories.

Only 3,000 tonnes of West German margarine can be imported into East Germany in the third quarter, for instance – a very small proportion of the total East German market of 180,000 tonnes a year.

Mr Schrader confesses that imposition of these import barriers has sharpened Unilever's thinking about trying to escape them via manufacturing agreements in East Germany. "We would be treating the question of production in a much more dilatory way but for the quotas."

It is exploring licensed production or joint ventures with the Magdeburg margarine company, an unnamed Kombinat in detergents and several ice cream-making enterprises. Unilever has started making advertising bookings on East German TV, which is soon to be liberalised, although the amount being spent is still very small at less than DM1m.

Before Unilever makes any large scale investment decisions in East Germany, Mr Schrader lists a number of business impediments which will have to be changed. Large question marks still beset the cloudy areas of property ownership, labour contracts and responsibility for polluted land.

Mr Schrader says his main task is to "get products on to the shelves" in East Germany, but Unilever is not interested in making "sacrifices in the German interest."

In a tub-thumping speech last Tuesday, Mr Helmut Haussmann, the Economics Minister, assailed "the small minded doubters" and the "book-keepers" in West German companies who were holding back investment in East Germany. Mr Schrader smiles and says: "I think this sort of small-mindedness is quite sensible."

INTERNATIONAL COMPANY NEWS IN BRIEF

NOBEL Industries, the Swedish armaments and chemicals group, reported a dramatic surge in profits for the first four months of 1990, thanks to substantial asset disposals, writes Robert Taylor in Stockholm.

After financial items, profits increased by nearly 200 per cent to SKr590m ($96m).

Turnover for the period dropped by 7 per cent to SKr7.2bn compared with the same four months of 1989.

■ Kansallis-Osake-Pankki (KOP), one of Finland's two largest commercial banks, said profits before appropriations and taxes for the first four months of this year rose 24 per cent to FM224.5m ($56.5m) from FM181.3m a year earlier, writes Enrique Tessieri in Helsinki. The result was held back by a bank strike this year, high Helsinki interbank offered rates and higher credit losses.

■ Norway's Skaugen Shipping Group is to be demerged into two holding companies: AS Eikland, which will take control of the group's publicly-quoted companies, and Salamis AS, which will control the group's private companies plus Jahre Line, a ferry line which is publicly quoted, writes Karen Fossli in Oslo.

■ Compagnie Hongroise Financiere (Cohfin), the Hungarian arm of Mr Carlo De Benedetti's Cerus, has joined up with Table de France to purchase a 60 per cent stake in the porcelain tableware unit of Groupe Alfold, Hungary's leading ceramics company, AP-DJ reports.

INTERNATIONAL COMPANIES AND FINANCE

Head start for Japanese brewery's image

Robert Thomson looks at Kirin's expansion plans on the day it gets its London listing

BEER in hand, a young Japanese woman stares down from a Tokyo subway billboard and demands "interesting conversation and a good beer," while her man, fashionably unshaven, is a mere blur in the black-and-white background.

The campaign by Kirin Brewery – shares in which are to be listed today in London – is hardly typical in Japan, where the routines of tea-making and desk dusting are still "women's work," and yet the billboard typifies the changes in, at least, the margins of the beer market.

Kirin, which had a conservative reputation and a comfortable 60 per cent beer market share in 1986, has been forced to reform by changing tastes in a market long presumed to be brand-loyal. The company's share fell to 49 per cent last year, prompting a rush of new product releases and a series of three-year plans.

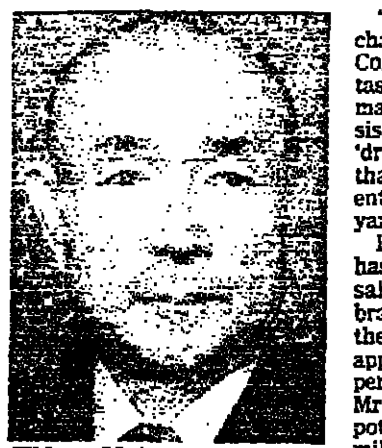
The London listing and a Paris quotation on June 29 are intended to help internationalise the image of a company which dominates beer sales in provincial Japan and has thus been considered somewhat provincial. The listings are also a sign that the ambitions of Japanese brewers flow well beyond the national boundary.

Mr Hideyo Motoyama, president of Kirin, and a member of the inner circle at the Mitsubishi *keiretsu*, or family of companies, said that, despite being the world's fourth largest brewer, the company is still little known abroad.

"One reason for listing in London is that we will become better known. We want European investors to know more about us," said Mr Motoyama, aged 64, president for the past six years, and previously head of planning and sales departments.

Convinced of the virtues of Japanese beer, Mr Motoyama would like Kirin to become more than a novelty item in foreign bars, and he concedes with a smile that the turbulence in the international beer market could present opportunities for mergers or acquisitions.

If negotiations are taking place with foreign brewers, he said, they are being handled lower down in the chain of command, though no deals will be done "unless we have a clear vision that we can succeed with the management."



Hideyo Motoyama: 'more emphasis on individualism'

Kirin sells and produces Heineken beer in Japan under licence, and Kirin beer is produced under licence in Hong Kong by San Miguel and in Canada for US sale by Molson Breweries. Foreign sales, including soft drinks, account for about 1.9 per cent of sales.

Japan's beer market was shaken four years ago by Asahi Breweries' "dry beer," a longer fermented, higher alcohol brew which pushed that company's sales up by 47 per cent and forced other manufacturers to devise new recipes and less complacent ways of marketing them.

"There have been many changes in the past 10 years. Consumers have more varied tastes, and not only in the beer market. There is more emphasis on individualism, and the 'dry shock' has made us realise that we have to supply different types of beer," Mr Motoyama said.

In the past three years Kirin has doubled the number of its sales staff, while four new brands have been released in the latest year. Market share appears to have risen above 50 per cent again this year, and Mr Motoyama is taken by the potential of Ichibanshibori, a mild lager for which "we can't meet domestic demand."

For image reasons, the company is keen to appeal to younger women, who are perceived to be trend-setters in the bigger cities, although, as Kirin officials emphasise, "in terms of volume, they don't drink a large amount." For equally trend-conscious reasons, the company has just sponsored a tour by the singer Marianne Faithfull and has generally become more artistically inclined.

Mr Motoyama suggests that the markets with the most growth potential are in Asia, particularly south-east Asia and China, although "about half of all Asians appear to have trouble handling alcohol because they don't seem to have the necessary enzymes."

Kirin's beer sales last year fell 5 per cent to Y1,074.9bn ($6.97bn), while soft drink sales rose by 27.6 per cent to Y108.7bn and food products by 1.7 per cent to Y10.5bn. The figures have encouraged the company to broaden the beverage base.

TWO new brands of canned coffee drinks under the Old Beans brand were released last year, and the company is now pushing Post Water, described as a "healthy, sodium free, low-calorie drink with components similar to those of water," though not as cheap.

The first of the four three-year plans began in 1988, partly inspired by the "dry shock," and has the themes of "concentrating on the basics" and "independence and growth of each division." Apart from food and drink, the company intends to expand its biotechnology and engineering activities, and increase its involvement in the health studio, property and restaurant businesses.

Orix buys contract rights to 74 aircraft at auction

By Stefan Wagstyl in Tokyo

ORIX, the fast-growing Japanese financial group, is buying contract rights to acquire up to 74 A320 aircraft from Airbus Industrie, the European aeroplane maker.

Orix said the transaction was "a giant step" towards becoming the first Japanese company to make a substantial move into the operating lease business for aircraft.

Running operating leases, where the financial company is responsible for the management of an aircraft as well as financing it, is both more risky and more profitable than simply lending to airlines.

Orix is buying the rights from Braniff, the US airline which has gone bankrupt, after making the top bid at an auction organised under US bankruptcy law.

The agreement covers rights to 24 firmly-ordered aircraft, and options for another 50, all for delivery over nine years starting in 1991. If all the options are exercised, the total cost would be more than $3bn.

Orix, like many large Japanese financial companies, is already active in the market for supplying lease funds to airlines to buy aircraft. Japanese banks are also the world's largest suppliers of funds to aircraft leasing companies.

Orix is one of Japan's largest non-bank financial companies, with consolidated total assets of Y4,700bn ($30.5bn).

Standard Chartered sells Australian finance unit

By Bruce Jacques in Sydney

STANDARD Chartered of the UK has continued to scale down its Australian operations, with its Standard Chartered Bank Australia offshoot shedding its finance subsidiary for a reported A$58m ($45m).

The bank announced yesterday it had agreed to sell Standard Chartered Finance to Australian Guarantee Corporation, Australia's biggest finance company and a wholly-owned subsidiary of Westpac Banking Corporation.

Standard Chartered Finance had total assets of A$591m at December 1989, ranking it about 14th in the industry.

Mr Eirvin Knox, Standard Chartered Australia's managing director, described the sale as another step in the group's restructuring.

"Our strategy continues to be to concentrate on our core business of assets, liability and advisory products with particular emphasis on trade flows and Asian migration, involving the worldwide Standard Chartered group," Mr Knox said. "The sale of Standard Chartered Finance will allow us to focus our activities and energies in these key areas."

Standard Chartered has been one of the least successful of the main foreign banks operating in Australia, reporting a pre-tax loss of A$30m for 1989 after writing off A$70m in bad and doubtful debts.

IHI confirms revival of Japan heavy engineers

By Our Financial Staff

THE REVIVAL among Japanese heavy engineering groups was confirmed yesterday by Ishikawajima-Harima Heavy Industries (IHI), which reported a 5.6 per cent rise in global net profit to Y11.1bn ($91m) for the year to March and said it was resuming shipbuilding at the third of its five yards after a 10-year gap.

The company shared in the recovery of the Japanese shipbuilding industry, with shipbuilding and ocean structure division sales climbing 17.5 per cent to Y113.5bn.

This represents only 14 per cent of its Y806.4bn total revenues, a markedly lower proportion than before the shake-out which dragged the industry into loss in the mid-1980s.

However, the increase is rather faster than IHI's modest overall growth rate in turnover of 2.6 per cent. The company said it suffered from a fall-off in orders for power plants, but expects these to pick up this year.

It is forecasting a 9.1 per cent rise in consolidated sales to Y880bn. Net profits at Y15bn are expected to remain held back because of a higher tax bill.

Aircraft engines and space-related equipment made up another growth area last year, with sales up 9.1 per cent to Y121.3bn. Yesterday the rival Kawasaki Heavy Industries joined IHI in planning to participate in the development of a Rolls-Royce jet engine.

Toshiba seeks European software links

By Alan Cane

THE INFORMATION systems division of Toshiba, the Japanese electronics group, plans to form alliances with European software and services companies, in order to remedy its inexperience in the development of western business systems.

Mr Takeo Fujii, general manager of Toshiba's Europe office, said yesterday in London that the company envisaged a range of possible alliances from marketing agreements to equity participation.

The company is the worldwide market leader in compact personal computers either of the "laptop" or "notebook" style. Its computers are marketed in the West either through dealers or by value-added resellers (VARs) who write applications software for business customers.

In Japan, Toshiba markets a full family of computers up to a powerful departmental system capable of supporting many users simultaneously.

The advent of laptop and notebook style personal computers is thought to herald a new wave of office automation but this revolution in truly portable computing will be delayed unless adequate software is available.

Alliances with western computing services companies are increasingly being seen by the leading Japanese manufacturers as a way of developing from hardware manufacturers to systems specialists. Earlier this month, it was revealed that Mitsubishi was in talks with ACT of the UK aimed at an alliance to market computer hardware and software throughout Europe.

Toshiba already has a broad range of alliances with European enterprises including an agreement with Alcatel of France to provide technological assistance and an agreement with Siemens of West Germany involving joint development of specialised semiconductors.

It manufactures televisions, microwave ovens, video cassette recorders and semiconductors in Europe and has just begun to produce laptop computers in West Germany.

Information and communications systems are the fastest growing parts of Toshiba's business.

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FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, June 18, 1990. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	57.9223	34.5517	37.7018
Albania	(Lek)	10.088	5.8873	3.5119	3.8320
Algeria	(Dinar)	14.4552	8.4360	5.0322	5.4910
Andorra	(Fr Fr)	9.6550	5.6346	3.3611	3.6676
	(Sp Peseta)	176.30	102.8888	61.3751	66.9705
Angola	(Kwanza)	50.904u	29.9180	17.7211	19.3367
Antigua	(E Carr $)	4.6075	2.6889	1.6040	1.7502
Argentina	(Austral)	8523.77	4974.4791	2967.3698	3237.8993
Aruba	(Florin)	3.0546	1.7826	1.0633	1.1603
Australia	(Aus $)	2.1925	1.2795	0.7632	0.8328
Austria	(Schilling)	20.20	11.7887	7.0322	7.6733
Azores	(Port Escudo)	253.00	147.6510	88.0765	96.1063
Bahamas	(Bahama $)	1.7135	1	0.5965	0.6509
Bahrain	(Dinar)	0.6444	0.3760	0.2243	0.2447
Balearic Is	(Sp Peseta)	176.30	102.8888	61.3751	66.9705
Bangladesh	(Taka)	57.50	33.5570	20.0174	21.8423
Barbados	(Barb $)	3.4323	2.0030	1.1948	1.3038
Belgium	(Belg Fr)	59.30	34.6075	20.6440	22.5261
Belize	(B $)	3.413	1.9918	1.1881	1.2964
Benin	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Bermuda	(Bermudian $)	1.7135	1	0.5965	0.6509
Bhutan	(Ngultrum)	29.50	17.2162	10.2697	11.2060
Bolivia	(Boliviano)	5.3584	3.1271	1.8654	2.0354
Botswana	(Pula)	3.19	1.8616	1.1105	1.2117
Brazil	(Cruzado)	94.4525	55.1225	32.8816	35.8793
British Virgin Is	(US $)	1.7135	1	0.5965	0.6509
Brunei	(Brunei $)	3.1570	1.8424	1.0990	1.1992
Bulgaria	(Lev)	503.40†	293.7846	175.2480	191.2250
Burkino Faso	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Burma	(Kyat)	10.7780	6.2900	3.7521	4.0942
Burundi	(Burundi Fr)	297.605	173.6825	103.6048	113.0503
Cambodia	(Riel)	373.54u	218	130.0400	141.8955
Cameroon	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Canada	(Canadian $)	2.0065	1.1709	0.6985	0.7622
Canary Is	(Sp Peseta)	176.30	102.8888	61.3751	66.9705
Cp. Verde	(CV Escudo)	124.1649	72.4627	43.2253	47.1661
Cayman Is	(CI $)	1.4164u	0.8300	0.4930	0.5380
Cent.Afr. Rep	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Chad	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Chile	(Chilean Peso)	521.36	304.2661	181.5004	198.0474
China	(Renminbi Yuan)	8.0795	4.7152	2.8127	3.0691
Colombia	(Col Peso)	839.48	489.9212	292.2471	318.8907
Comoros	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Congo (Brazz)	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Costa Rica	(Colon)	153.875	89.8015	53.5683	58.4520
Côte d'Ivoire	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Cuba	(Cuban Peso)	1.3597	0.7935	0.4733	0.5165
Cyprus	(Cyprus £)	0.8025	0.4683	0.2793	0.3048
Czechoslovakia	(Koruna)	28.03c	16.3583	9.7580	10.6476
		47.33t	27.6218	16.4769	17.9791
Denmark	(Danish Kroner)	10.9700	6.4021	3.8189	4.1671
Djibouti Rep	(Djib Fr)	300.00	175.0802	104.4386	113.9601
Dominica	(E Carrib $)	4.6075	2.6889	1.6040	1.7502
Dominican Rep	(D Peso)	14.3817	8.3931	5.0066	5.4631
Ecuador	(Sucre)	1595.70o	931.2518	555.5091	606.1538
		1278.03a	745.8593	444.9190	485.4814
Egypt	(Egyptian £)	4.6375	2.7064	1.6144	1.7616
El Salvador	(Colon)	10.8538	6.3342	3.7785	4.1230
Equat'l Guinea	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Ethiopia	(Ethiopian Birr)	3.5062	2.0462	1.2206	1.3318
Falkland Is	(Falk £)	1.00	0.5836	0.3481	0.3798
Faroe Is	(Danish Kroner)	10.9700	6.4021	3.8189	4.1671
Fiji Is	(Fiji $)	2.5844	1.5082	0.8997	0.9817
Finland	(Markka)	6.7815	3.9576	2.3608	2.5760
France	(Fr)	9.6550	5.6346	3.3611	3.6676
Fr. Cty/Africa	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Fr. Guiana	(Local Fr)	9.6550	5.6346	3.3611	3.6676
Fr. Pacific Is	(CFP Fr)	175.00	102.1301	60.9225	66.4767
Gabon	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Gambia	(Dalasi)	14.1387	8.2513	4.9220	5.3708
Germany East	(Ostmark)	2.8725	1.6763	1	1.0911
Germany West	(D Mark)	2.8725	1.6763	1	1.0911
Ghana	(Cedi)	560.5520	327.1386	195.1442	212.9552
Gibraltar	(Gib £)	1.00	0.5836	0.3481	0.3798
Greece	(Drachma)	289.10	168.7189	100.6440	109.8195
Greenland	(Danish Krone)	10.9700	6.4021	3.8189	4.1671
Grenada	(E Carr $)	4.6075	2.6889	1.6040	1.7502
Guadaloupe	(Local Fr)	9.6550	5.6346	3.3611	3.6676
Guam	(US $)	1.7135	1	0.5965	0.6509
Guatemala	(Quetzal)	6.7056	3.9133	2.3344	2.5472
Guinea	(Fr)	511.95	298.7744	178.2245	194.4729
Guinea-Bissau	(Peso)	1109.22u	650	386.1514	421.3561
Guyana	(Guyanese $)	55.8759	33	19.4516	21.2250
Haiti	(Gourde)	8.5325u	5	2.9704	3.2412
Honduras	(Lempira)	7.3564u	4.4250	2.5609	2.7944
Hong Kong	(HK $)	13.3035	7.7639	4.6313	5.0535
Hungary	(Forint)	111.42	65.0248	38.7885	42.3247
Iceland	(Icelandic Krona)	103.02	60.1225	35.8642	39.1339
India	(Indian Rupee)	29.50	17.2162	10.2697	11.2060
Indonesia	(Rupiah)	3159.05	1843.6241	1099.7563	1200.0189
Iran	(Rial)	118.20	68.9816	41.1488	44.9002
Iraq	(Iraqi Dinar)	0.5313	0.3100	0.1849	0.2018
Irish Rep	(Punt)	1.0715	0.6253	0.3730	0.4070
Israel	(Shekel)	3.545	2.0688	1.2341	1.3466
Italy	(Lira)	2108.00	1230.2305	733.8555	800.7597
Jamaica	(Jamaican $)	11.7010	6.8287	4.0734	4.4448
Japan	(Yen)	263.25	153.6329	91.6449	100
Jordan	(Jordanian Dinar)	1.1312	0.6601	0.3938	0.4297
Kenya	(Kenya Shilling)	39.30	22.9355	13.6814	14.9287
Kiribati	(Australian $)	2.1925	1.2795	0.7632	0.8328
Korea North	(Won)	1.6553	0.9660	0.5762	0.6287
Korea South	(Won)	1236.92	721.8675	430.6074	469.8651
Kuwait	(Kuwaiti Dinar)	0.4999	0.2917	0.1740	0.1898
Laos	(New Kip)	1228.68	717.0586	427.7389	466.7350
Lebanon	(Lebanese £)	1145.30	668.3396	398.6771	435.0237
Lesotho	(Maloti)	4.5553	2.6584	1.5858	1.7304
Liberia	(Liberian $)	1.7135	1	0.5965	0.6509
Libya	(Libyan Dinar)	0.500	0.2918	0.1740	0.1899
Liechtenstein	(Swiss Fr)	2.4275	1.4166	0.8450	0.9221
Luxembourg	(Lux Fr)	59.30	34.6075	20.6440	22.5261
Macao	(Pataca)	13.7293	8.0124	4.7795	5.2153
Madeira	(Port Escudo)	253.00	147.6510	88.0765	96.1063
Malagasy Rep	(MG Fr)	2214.25	1292.2381	770.8442	841.1206
Malawi	(Kwacha)	4.8285	2.8179	1.6809	1.8341
Malaysia	(Ringgit)	4.6340	2.7044	1.6132	1.7602
Maldive Is	(Rufiya)	15.7220	9.1753	5.4732	5.9722
Mali Rep	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Malta	(Maltese £)	0.5595	0.3265	0.1947	0.2125
Martinique	(Local Fr)	9.6550	5.6346	3.3611	3.6676
Mauritania	(Ouguiya)	143.12	83.5249	49.8241	54.3665
Mauritius	(Maur Rupee)	26.15	15.2611	9.1035	9.9335
Mexico	(Mexican Peso)	4863.67a	2838.4417	1693.1836	1847.5479
		4780.59b	2789.9562	1664.2610	1815.9886
Miquelon	(Local Fr)	9.6550	5.6346	3.3611	3.6676
Monaco	(French Fr)	9.6550	5.6346	3.3611	3.6676
Mongolia	(Tugrik)	[illegible]	[illegible]	[illegible]	[illegible]
Montserrat	(E Carr $)	4.6075	2.6889	1.6040	1.7502
Morocco	(Dirham)	14.8553	8.6695	5.1715	5.6430
Mozambique	(Metical)	1623.15	947.2716	565.0652	616.5811
Namibia	(S A Rand)	4.5553	2.6584	1.5858	1.7304
Nauru Is	(Australian $)	2.1925	1.2795	0.7632	0.8328
Nepal	(Nepalese Rupee)	49.101	28.6553	17.0934	18.6518
Netherlands	(Guilder)	3.2326	1.8865	1.1253	1.2279
N'nd Antilles	(A/Guilder)	3.0546u	1.7900	1.0633	1.1603
New Zealand	(NZ $)	2.9333	1.7118	1.0211	1.1142
Nicaragua	(Cordoba)	290105.00	169305.515	100993.908	110201.330
Niger Rep	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Nigeria	(Naira)	13.4472	7.8477	4.6813	5.1081
Norway	(Nor. Krone)	11.0950	6.4750	3.8624	4.2146
Oman	(Rial Omani)	0.6581	0.3840	0.2291	0.2499
Pakistan	(Pak. Rupee)	36.50	21.3014	12.7067	13.8651
Panama	(Balboa)	1.7135	1	0.5965	0.6509
Papua New Guinea	(Kina)	1.6518	0.9640	0.5750	0.6274
Paraguay	(Guarani)	1930.44	1126.6063	672.0417	733.3105
Peru	(Intl)	44926.43	26219.1012	15640.1845	17066.0702
Philippines	(Peso)	37.70	22.0017	13.1244	14.3209
Pitcairn Is	(£ Sterling)	1.00	0.5836	0.3481	0.3798
	(NZ $)	2.9333	1.7118	1.0211	1.1142
Poland	(Zloty)	16012.00	9344.6162	5574.2384	6082.4311
Portugal	(Escudo)	253.00	147.6510	88.0765	96.1063
Puerto Rico	(US $)	1.7135	1	0.5965	0.6509
Qatar	(Riyal)	6.2241	3.6323	2.1667	2.3643
Reunion Is. de la	(F Fr)	9.6550	5.6346	3.3611	3.6676
Romania	(Leu)	35.291	20.5952	12.2856	13.4055
Rwanda	(Fr)	130.4475	76.1292	45.4125	49.5527
St Christopher	(E Carr $)	4.6075	2.6889	1.6040	1.7502
St Helena	(£)	1.00	0.5836	0.3481	0.3798
St Lucia	(E Carr $)	4.6075	2.6889	1.6040	1.7502
St Pierre	(French Fr)	9.6550	5.6346	3.3611	3.6676
St Vincent	(E Carr $)	4.6075	2.6889	1.6040	1.7502
San Marino	(Italian Lira)	2108.00	1230.2305	733.8555	800.7597
Sao Tome	(Dobra)	179.967	105.0288	62.6516	68.3635
Saudi Arabia	(Riyal)	6.4060	3.7379	2.2302	2.4334
Senegal	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Seychelles	(Rupee)	9.20	5.3691	3.2027	3.4947
Sierra Leone	(Leone)	273.10	159.3813	95.0739	103.7416
Singapore	($)	3.1570	1.8424	1.0990	1.1992
Solomon Is	($)	4.3295	2.5266	1.5072	1.6446
Somali Rep	(Shilling)	699.66	408.3221	243.5718	265.7777
South Africa	(Rand)	4.5553c	2.6584	1.5858	1.7304
		6.7158a	3.9193	2.3379	2.5511
Spain	(Peseta)	176.30	102.8888	61.3751	66.9705
Spanish Ports in N Africa	(Sp Peseta)	176.30	102.8888	61.3751	66.9705
Sri Lanka	(Rupee)	67.50	39.3929	23.4986	25.6410
Sudan Rep	(£)	19.5394	11.4032	6.8022	7.4223
Surinam	(Guilder)	3.0376	1.7727	1.0575	1.1538
Swaziland	(Lilangeni)	4.5553	2.6584	1.5858	1.7304
Sweden	(Krona)	10.4400	6.0927	3.6344	3.9658
Switzerland	(Fr)	2.4275	1.4166	0.8450	0.9221
Syria	(£)	35.8345u	21	12.4757	13.6131
Taiwan	($)	46.85	27.3416	16.3098	17.7967
Tanzania	(Shilling)	329.80	192.4715	114.8128	125.2801
Thailand	(Baht)	43.50	25.3866	15.1436	16.5242
Togo Rep	(CFA Fr)	482.75	281.7332	168.0591	183.3808
Tonga Is	(Pa Anga)	2.1925	1.2795	0.7632	0.8328
Trinidad/Tobago	($)	7.2847	4.2513	2.5360	2.7672
Tunisia	(Dinar)	1.5520	0.9057	0.5402	0.5895
Turkey	(Lira)	4490.80	2620.8345	1563.3768	1705.9069
Turks & Caicos	(US $)	1.7135	1	0.5965	0.6509
Tuvalu	(Australian $)	2.1925	1.2795	0.7632	0.8328
Uganda	(New Shilling)	654.25	381.8208	227.7632	248.5280
U A E	(Dirham)	6.2726	3.6606	2.1836	2.3827
United Kingdom	(£)	1.00	0.5836	0.3481	0.3798
United States	(US $)	1.7135	1	0.5965	0.6509
Uruguay	(Peso)	1930.38	1126.5713	672.0208	733.2877
USSR	(Rouble)	1.0135	0.5914	0.3528	0.3849
Vanuatu	(Vatu)	203.00	118.4709	70.6701	77.1130
Vatican	(Lira)	2108.00	1230.2305	733.8555	800.7597
Venezuela	(Bolivar)	81.4005	47.5053	28.3378	30.9213
Vietnam	(Dong)	7679.25	4481.6165	2673.3681	2917.0940
Virgin Is-British	(US $)	1.7135	1	0.5965	0.6509
Virgin Is-US	(US $)	1.7135	1	0.5965	0.6509
Western Samoa	(Tala)	3.9761	2.3204	1.3841	1.5103
Yemen	(Rial)	20.478	11.9509	7.1289	7.7789
Yemen PDR	(Dinar)	0.7850	0.4619	0.2732	0.2981
Yugoslavia	(Dinar)	20.2534	11.8199	7.0507	7.6935
Zaire Rep	(Zaire)	962.60	561.7741	335.1087	365.6600
Zambia	(Kwacha)	67.25	39.2471	23.4116	25.5460
Zimbabwe	($)	4.21	2.4569	1.4656	1.5992

Special Drawing Rights June 15, 1990 United Kingdom £0.768971 United States $1.31148 Germany West D Mark 2.21876 Japan Yen202.634 European Currency Unit Rates June 18, 1990 United Kingdom £0.714687 United States $1.21997 Germany West D Mark 2.05907 Japan Yen188.058

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; † Basic Rate: quoted per £100 sterling. (k) Buying rate; (l) Luxury goods; (m) Market rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar; Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 01 634 4360/5. Monday, June 18, 1990.

INTERNATIONAL CAPITAL MARKETS

Gilt prices depressed by high May PSBR figure

By Deborah Hargreaves

GILT-edged securities prices suffered from the release of a set of economic figures yesterday that disappointed the market. Last week it had been buoyed by rumours of the UK's entry into the exchange rate mechanism of the European Monetary System. Prices drifted down by almost a point across the yield curve and traders remain pessimistic.

The figure that shook the gilts market was the Government's Public Sector Borrowing Requirement for May, which proved to be almost £1bn above economists' predictions. The market was expecting the PSBR figure to be around £500m, but it turned out to be £1.7bn, which depressed gilts prices for the rest of the day, pushing yields to around 11⅞ per cent.

Although a closer reading of the figures shows the trend to be better than an initial glance would indicate, the market's knee-jerk reaction was one of distress at the Government's deteriorating finances and an expectation that more gilts sales could begin again soon.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	94-20	-10/32	12.57	12.66	12.18
		10.500	5/99	[illegible]	-27/32	11.85	12.05	[illegible]
		9.000	10/08	84-20	-22/32	10.95	11.14	11.05
US TREASURY *		8.875	05/00	102-17	-05/32	8.49	8.52	8.72
		8.750	05/20	103-04	-13/32	8.46	8.46	8.70
JAPAN	No 119	4.800	6/99	87.5258	-0.046	7.05	7.14	7.28
	No 2	5.700	3/07	92.4599	+0.001	6.45	6.60	6.81
GERMANY		7.750	02/00	92.7500	-0.150	8.86	8.85	8.69
FRANCE	BTAN	9.000	02/95	96.0173	-0.138	10.08	10.14	9.96
	OAT	8.500	03/00	93.3000	-0.150	9.54	9.61	9.56
CANADA *		9.750	05/00	99.5000	-0.550	10.43	10.51	10.83
NETHERLANDS		9.000	05.00	99.3600	-	9.00	9.04	8.97
AUSTRALIA		12.000	7/99	91.5457	-0.120	13.50	13.53	13.66

London closing. *denotes New York closing session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal. Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

■ THE West German bond market is virtually paralysed in the run-up to monetary union on July 2, with trading dominated by brokers and arbitrageurs as prices are confined in a narrow range. In the absence of much market activity, trading houses are rife with rumour about new issues as they fear a new Bund would further depress demand.

The market expects the next federal bond to carry a 9 per cent coupon, although it is looking towards the end of the week for more details. In addition, traders are anticipating that the much-heralded unity bonds to fund German unification could have maturities ranging from 15 to five years.

While futures prices were five pfennigs lower at 81.89 and a yield of 8.86 per cent, the cash market closed little changed with the 8⅞ per cent May 2000 bond trading at 99.33.

The spread between the German and Dutch markets has narrowed to 14 basis points as activity in the Netherlands remains slow.

■ US Treasury bonds moved lower yesterday in a continued reaction to last Friday's stronger than expected rise in industrial production for May. This convinced some in the market that the US Federal Reserve would not decide to ease monetary policy at its early July Federal Open Market Committee meeting.

In late trading, the benchmark long bond was quoted ⅛ point lower for a yield of 8.46 per cent and short-dated maturities were quoted around ⅛ point lower.

Industrial production rose 0.6 per cent in May and the previous month's figure was revised up to show a gain of 0.4 per cent.

In addition, capacity utilisation was at its highest level since August 1989.

This balanced some reasonably subdued producer and consumer prices reported for May last Thursday and Friday and a surprisingly large drop in retail sales last month, putting the bond market on the defensive.

There is a batch of economic data due this week but it is unlikely that they will trigger the kind of volatility seen last week.

May housing starts are released today followed by the latest Tan Book of regional economic reports, this month written by the Cleveland Fed.

This is followed on Thursday by the May budget announcement from the Treasury and the final report on first quarter gross national product.

Durable goods orders and personal income and consumption for May come out on Friday.

Portal starts slowly but successfully

By Andrew Freeman

THE National Association of Securities Dealers successfully launched its Portal electronic system for trading privately-placed debt and equities in the US last Friday. However, the system had a quiet start, as only three issues of securities are eligible.

Portal has been developed to accompany the newly-liberalised private placement rules created by the Securities and Exchange Commission's Rule 144a amendments. The system allows screen-based price quotation and book-entry settlement.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on June 18

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 8 3/4 97	1500	99	99½	-⅛	9.15
XEROX CORPN 8 3/8 96	100	93⅜	94⅜	-⅛	9.88

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DENMARK 8 1/8 91 FFr	1000	97⅛	97⅛	-⅛	10.24
EURATOM 7 5/8 98 FFr	500	85½	86	-⅛	10.37

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 8 94	200	96⅜	96⅞	+⅛	8.97
AUSTRIA 6 98	400	83¼	83½		9.09
CNT 6 1/8 98	200	82⅝	83		9.19
CREDIT FONCIER 6 3/4 99	500	85¼	85½		9.27
DEUTSCHE BK FIN 5 5/8 96	750	84⅞	85¼		9.02
EEC 5 3/8 93	300	91⅝	91¾		9.19
EIB 6 1/8 96	300	86¼	86½	-⅛	9.22
EIB 6 7/8 95	300	90½	90¾		9.16
ELEC DE FRANCE 6 1/8 98	300	82½	82¾	+⅛	9.22
EUROFIMA 6 1/4 98	400	82⅛	82⅜		9.38
FERRO DEL STAT 5 3/8 93	500	91¼	91½		9.33
IND BK JAPAN FIN 5 5/8 96	300	84¼	84⅝		9.25
INTER AMER DEV 7 1/4 99	300	88⅞	89¼	+⅛	9.11
LUFTHANSA INT FIN 5 7/8 98	500	82¼	82⅝	+⅛	9.14
QUEBEC HYDRO 6 3/4 99	300	84⅝	84⅞	+⅛	9.39
SWEDEN 6 1/8 98	300	83⅝	83⅞		9.11
WORLD BANK 0 15	2000	14⅛	14⅜	+⅛	7.94
WORLD BANK 5 3/4 96	300	85⅛	85⅜		9.19
WORLD BANK 7 1/8 95	500	92⅞	93⅛		9.08

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 6 10	100	86½	88		7.29
AUSTRIA 4 5/8 98	100	87⅛	87½	-⅛	6.81
COUNCIL EUROPE 4 3/4 98	250	87	87⅛		6.99
DENMARK 3 3/4 91	100	97	98		8.17
EEC 5 1/2 00	100	89	89½	+½	7.01
EIB 5 3/4 93	100	96⅛	97½	-⅛	6.85
FINLAND 5 3/8 95	150	93½	94		6.85
JAPAN DEV BK 5 1/2 94	100	95½	96½	+½	6.93
MOUNT ISA FINANCE 5 3/4 94	100	89½	90		9.06
NEW ZEALAND 4 7/8 99	200	85	86	-½	7.27
POLLY PECK INTL FIN 6 1/4 96	100	83½		+1¼	10.19
QUEBEC HYDRO 5 08	100	79½	79¾	+½	7.06
SKANDINAVISKA ENSK 6 1/2 95	100	98¼	99	+⅛	6.81
WORLD BANK 6 1/4 92	100	98½	99½		6.95
WORLD BANK 7 1/4 92	100	100½	100¾	+⅛	6.97

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
AUSTRIA 4 3/4 94	30000	93¼	93⅜		6.97
BARCLAYS O/S INV 6 96	40000	94⅞	95⅛		7.15
CREDIT FONCIER 5 1/4 94	20000	93¼	93⅝		7.07
DENMARK 7 95	40000	100⅛	100⅝		6.89
EIB 4 5/8 94	40000	92⅜	92⅝		6.93
FNMA 6 7/8 92	50000	100	100½		6.84
GENERAL ELECTRIC 5 3/4 93	35000	96¼	96⅝		7.27
ITALY 5 3/4 92	150000	98⅛	98⅜		6.95
KANSAI ELEC PWR 4 5/8 94	60000	91⅝	91⅞	+⅛	7.18
NORWAY 5 1/8 95	50000	93¼	93⅝	+⅛	6.82
SWEDEN 5 5/8 95	20000	94½	95		6.90
WORLD BANK 6 3/4 00	50000	99⅝	99⅞		6.50

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ABBEY NATIONAL 1/16 00 £	150	99.95	100.02	15.3125
ALBERTA PROVINCE 1/32 93	500	99.87	99.97	8.4063
ALLIANCE & LEICS 0.08 94 £	300	99.89	99.94	15.3300
BANCO DI NAPOLI INT 91	150	99.97	100.07	8.8750
BANCO ROMA 0.03 01	200	95.96	96.21	8.2900
BELGIUM 1/16 97 DM	500	100.05	100.16	8.9375
BFCE -0.02 96	350	99.84	99.94	8.4175
BNP 05	300	98.89	99.01	8.3750
BRITANNIA 1/10 96 £	150	99.89	99.94	15.3500
CITICORP 1/4 98	500	96.57	97.07	8.5625
CITIZENS FED 0.15 96	100	99.17	99.86	8.7125
COMMERZBK O/S FIN 93	200	99.60	99.70	8.3125
DENMARK -1/8 96	1000	99.13	99.23	8.1875
FERRO DEL STAT 94	200	100.28	100.38	8.4375
HALIFAX 1/10 94 £	200	100.07	100.12	15.3500
MITSUI FIN ASIA 1/8 96	100	99.93	100.03	8.5625
MORGAN (JP) 1/4 97	250	99.62	100.00	8.5625
NAT WEST FIN 3/16 05	400	97.56	97.89	8.8125
NEW ZEALAND 93	500	99.44	99.54	8.2500
NORTHEAST SAVINGS 1/10 96	150	99.13	99.88	8.5375
QUEBEC PROV 01	500	97.87	97.99	8.5000
RENFE 98	500	99.69	99.79	8.5000
SOCIETE GENERALE 96	300	99.30	99.40	8.6250
UNITED KINGDOM -1/8 96	4000	99.79	99.83	8.2500
WELLS FARGO 1/16 94	150	98.00	98.50	8.3750

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
ARGYLL GROUP 4 1/2 02 £	60	2.95	100⅛	101⅛	-23.17
ASDA-MFI 4 3/4 02 £	100	1.64	104½	105⅛	-47.74
BURTON GROUP 4 3/4 01 £	110	3.15	107⅛	108⅛	
EASTMAN KODAK 6 3/8 01	300	50.67	95⅛	96⅛	+15.52
GOODYEAR TIRE 6 7/8 03	150	80¼	76⅛	77¼	-77.01
GRACE (WR) 6 1/4 02	150	42⅛	85¼	86	+21.56
GRAND MET 6 1/4 02 £	100	6.58	104⅛	105⅛	+3.65
HILLSDOWN 4 1/2 02 £	150	4.16	98⅛	99⅛	-49.74
INTL PAPER 5 3/4 02	200	68¼	89⅝	90¼	+12.91
LAND SECS 6 3/4 02 £	84	6.72	82⅞	83⅞	+9.41
METAL BOX 5 3/4 02 £	65	1.93	109⅛	111¼	-5.86
MITSUBISHI BK 1 3/4 02	300	2727.1	88⅛	90⅛	-6.71
OGDEN 6 02	85	39.077	85¼	86¼	+26.31
PACIFIC DUNLOP 6 3/4 97	75	3.749	105¼	106⅛	+1.92
SUMITOMO BANK 3 1/8 04	300	3606.9	63⅞	64⅛	+10.83
TEXAS INSTRUMENTS 2 3/4 02	300	82⅜	76⅛	77⅛	+61.79
THORN EMI 5 3/4 04 £	103	7.45	106½	107½	+3.04

* No information available - previous day's price

§ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn = The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Turks form long queues for Petkim shares

By Jim Bodgener in Ankara

LONG queues of Turks formed yesterday outside branches of the quasi-state bank Turkiye Is Bankasi to buy shares across the counter in Petkim, the state petrochemicals group.

The sale is the biggest stage yet in the Turkish Government's ambitious privatisation programme. A total of TL183.6bn ($69m) worth or about 9 per cent of Petkim's TL2,000bn capital was sold yesterday in the total issue of 20 per cent.

Many investors were middle-income people eager to buy into what they consider a more durable investment than many companies quoted on the Istanbul Stock Exchange.

This is in line with the government's aim of extending the capital markets by spreading privatisation through share ownership. The percentage of Petkim's capital which will finally be issued will depend on demand.

The shares, with a nominal value of TL1,000 were priced very attractively at TL2,500 each, with an expected market value once they reached the Istanbul exchange of between TL3,500 to TL4,000.

An exchange listing will follow in two weeks.

Sydney futures probe launched

THE SYDNEY Futures Exchange (SFE) has begun an investigation into unusual price movements in three-year Treasury bonds shortly before the expiry of the corresponding June futures contract on Friday, Agencies report.

The three-year bond contract is a cash settlement contract and the closing price is worked out by the SFE against a basket of physical prices. In the quarter hour before the June contract expired its quotation rose to 86.12 from 86.02, reflecting a 15 to 20 basis point fall in the yield of bonds underlying the contract. Its expiry price compared with a fall in the 10-year Treasury bond contract.

US exchanges to develop network with Reuters

By Barbara Durr in Chicago

THE DECISION by three US stock and options exchanges to develop a joint trading system with Reuters takes the market a step closer to a 24-hour global trading system.

The Chicago Board Options Exchange (CBOE), the American Stock Exchange (Amex), the Cincinnati Stock Exchange (CSE) and Reuters Holdings of the UK announced yesterday that they had become partners for a worldwide after-hours electronic trading system of equities and options.

The system, which will operate between 6pm and 6am Eastern Standard time, will be designed over the next 16 months and is expected to be launched in two to three years.

The announcement follows a similar one last week by the New York Stock Exchange, which had been invited to join the partnership. Mr John Hull, vice president of Reuters America, said: "we still want to bring them in."

The move to worldwide electronic trading will give the US an advantage, according to Mr James Jones, chairman of Amex. It and the CBOE have been competitors in options, but Mr Jones said that international competition had caused the exchanges to "put aside some of our competitive bias."

Decisions on what products are traded and how fees are set have yet to be made. But initially 24 "world-class stocks" (such as IBM), as well as the Standard & Poor's 100 index, which are now listed by the exchanges, are expected to be included. Other exchanges are being invited to join the system. Mr Jones said he had seen interest in London's equities markets and was optimistic about European participation.

The CBOE will build and operate the trading system's host computer, on which the CBOE, Amex and CSE will list their products. Reuters will provide the communications network to interface with the system host computer. The agreement between the three exchanges and Reuters, negotiated over the last nine months, will run for 12½ years.

Part of the impetus behind the move to 24-hour electronic trading of securities was the Chicago Mercantile Exchange's Globex system for after-hours trading of financial futures. The options system could end up joining Globex and the exchanges said they were talking about a link-up.

Deborah Hargreaves adds: Mr Jones said the decision to join the CBOE was part of the exchange's global strategy.

He envisages the development of a three-tier market whereby some products will be traded for 24-hours; other products will be international and will be covered by after-hours trading or by passing the book from one exchange to another; and the third tier of the market will be for domestic products.

The Amex is planning to make an announcement next week about its proposed Situs system for trading privately-placed debt and securities in the US. The exchange is also pursuing link-ups with European exchanges, including the London Traded Options Market.

Madrid seeks DTB system

THE MADRID Stock Exchange agreed yesterday to adopt software from the Deutsche Terminbörse (DTB), the German electronic system, for its planned options market, writes Katharine Campbell in Frankfurt.

A study commissioned by the exchange recommended a screen-based system. The Madrid equity market is in the process of transferring to the electronic CATS, the Canadian system used by a number of European stock markets.

Madrid has plumped for software developed by Arthur Andersen, the consultancy firm, for Soffex, the Swiss market, and expanded for the DTB, which opened in January. No price was disclosed. Spain has two derivatives markets now.

Italian railway offers $500m fungible issue

By Tracy Corrigan

A CLUTCH of dollar offerings totalling $800m, including a $500m fungible issue for Ferrovie dello Stato, the Italian state railway, dominated the Eurobond market yesterday.

The bonds were launched into a declining US Treasury market, in the wake of some disappointing economic data late last week.

INTERNATIONAL BONDS

However, with many investors still confident that rates are set to fall over the next few months, the price declines were perceived largely as a buying opportunity.

First Chicago is expected to launch its $1bn credit card-backed issue of global bonds in the next day or so.

The five-year bonds will be issued in registered form and will pay interest half-yearly, following US practice. Credit enhancement will be provided by a letter of credit from Crédit Suisse, so the bonds will be rated Triple-A.

Price talk is for a launch spread of 80 basis points above the five-year US Treasury yield.

First Boston and Credit Suisse First Boston are lead managers in the US and Europe respectively.

Also in the dollar sector, the Municipality of Madrid is likely to become the first in Spain to tap the Eurodollar bond market.

Nomura International has been mandated to lead a $250m three-year offering, once the Spanish authorities have sanctioned the deal.

Ferrovie's $500m issue of 9⅛ per cent bonds, fungible with an outstanding $500m deal, was arranged by Morgan Stanley.

The bonds can be put in 1999, with final maturity in 2009. The launch spread of 50.5 basis points was said to be reasonably attractive, as dealers valued the put option, which investors to extend the bonds' maturity, at between 15 and 20 basis points.

The issue closed at 99.47 bid, below the fixed reoffered price of 99.60.

Also in the dollar sector, Reed Publishing (USA) brought a $150m seven-year issue guaranteed by Reed International, the UK publishing concern.

The 9⅝ per cent bonds were launched by Credit Suisse First Boston at a yield spread of 100 basis points. Like Reed's $125m five-year deal launched last December, the new issue includes event risk protection clauses.

There is an investor put option if Moody's or Standard & Poor's downgrade the bonds below investment grade as a result of specific events, which include asset sales and acquisitions.

Dealers reported steady demand, especially from UK institutions. The issue was quoted at 99.48 bid, just below the fixed reoffered price of 99.525.

The funds are being used to refinance commercial paper borrowings arising out of recent US acquisitions, enabling Reed to lengthen the maturity of its debt.

A $150m issue for the City of Kobe, guaranteed by the Government of Japan, met steady demand. The bonds, launched by Bank of Tokyo Capital Markets, were bid at less 2.10, just outside two point fees.

In the German bond market, two 10-year issues of floating rate notes were launched for Banque Indosuez, the French bank, and Italstat International, guaranteed by Autostrade of Italy.

Demand for the Indosuez deal, which pays interest at 35 basis points above six-month London interbank rate, was somewhat limited by its subordinated status, although the pricing was reported to be in line with the market. The deal, via Trinkaus & Burkhardt, was bid at 99.75, just outside its total management fees. The Italstat offering was regarded as a touch on the tight side, in view of the borrower's option to switch to a fixed rate after five years. The issue, via Bayerische Vereinsbank, was bid at less 0.45 bid, outside its full management fees.

In the Ecu bond market, the Japan Development Bank brought an Ecu200m offering of 10½ per cent five-year bonds. Dealers said the bonds were attractively priced at a currently preferred maturity. Strong, primarily European, demand held the bonds within full fees of 1⅞ at less 1.65 bid. The deal was swapped into yen. Late in the day, J.P. Morgan brought a C$125m three-year offering via CSFB. The 13 per cent coupon is intended to attract retail investors.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ferrovie dello Stato(e)♦	500	9⅛	99.60	2009	30/20bp	Morgan Stanley Int.
Reed Publishing(USA)(f)♦	150	9⅝	99.525	1997	1⅞/1.7	CSFB
City of Kobe(g)♦	150	9⅛	101.70	2000	2/1¼	Bank of Tokyo Cap. Mkts
BanCal Tri-State Corp.(g)♦	65	8⅞	101⅛	1993	1⅜/⅞	Mitsubishi Fin. Int.
STERLING						
Halifax B. Society(h)‡♦	350	1/16	99.92	1995	12/8bp	CSFB
ECUs						
Japan Development Bank(g)♦	200	10½	101.80	1995	1⅞/1¼	Credit Lyonnais
CANADIAN DOLLARS						
J.P. Morgan & Co.(g)♦	125	13	101⅞	1993	1⅜/⅞	CSFB
D-MARKS						
Banque Indosuez(b)‡♦	200	35bp	100	2000	20/10bp	Trinkaus und Burkhardt
Italstat Int.(c)‡♦	150	⅛	100	2000	25/10bp	Bayerische Vereinsbank
WestLB Finance Curacao(d)★★♦	100	11¾	(d)	1993	n/a	WestLB
SWISS FRANCS						
Bayer.L'anstalt Aufbaufinz(a)♦	50	7	101¾	1997	2⅛	SBC

★★Private placement. ‡Floating rate notes. ♦Final terms. a) Call after five years at 101½ declining thereafter. b) Coupon pays 35bp over 6-month Libor. Short first coupon. Non-callable. c) Coupon pays ⅛% over 6-month Libor first five years, then borrower has right to convert note into DM180m bond paying 10% for five years (non-callable). If not converted issue will remain FRN. Non-callable. d) Borrower option to pay last coupon in C$. Issue price not disclosed. Non-callable. e) Fungible with existing $500m issue. Put July 1999 at par. Non-callable. Fixed re-offer price. f) Non-callable. Fixed re-offer price. g) Non-callable. h) Coupon pays 1/16% over 3-month Libor. Fixed re-offer price minimum 99.92. Call from July 1993 at par.

Indian home finance group plans $100m Eurobond

By Tracy Corrigan

INDIA'S Housing Development Finance Corporation is preparing a $100m Eurobond, the first to carry a partial guarantee from the World Bank under its new Expanded Co-financing Operations (ECO) programme.

The 15-year fixed-rate notes are expected to be issued in about a month, once the guarantee has been negotiated. Salomon Brothers is the lead underwriter. The notes will be targeted at US institutional investors such as insurance companies, said Thomas W. Jasper, managing director in charge of Asia Pacific banking at Salomon in New York.

The World Bank's ECO programme, given the go-ahead by the bank's board last year, is designed to help borrowers gain access to markets which might otherwise be closed to them, said Sanjivi Rajasingham, a co-financing adviser at the bank.

The Government of India will guarantee interest, and any accelerated principal repayments, while the World Bank guarantee, for which it charges a fee, only covers the scheduled principal repayment.

HDFC is the largest private retail housing finance institution in India. The proceeds of the private placement will finance home mortgages.

Cemex completes $100m convertible Eurobond

By Richard Johns in Monterrey

CEMEX, the leading Mexican cement producer, has successfully completed a $100m convertible Eurobond.

The issue, brought by Sunbelt Enterprises, a subsidiary of Cemex, was sold through Citicorp Investment Bank to more than 90 investors.

The issue will be exchangeable into the American depositary receipts of Tolmex, a Cemex subsidiary, which will be listed on Nasdaq this summer.

The issue should enable Cemex to reduce its debt-equity ratio by 7 percentage points from about 90 per cent, said Mr Lorenzo H. Zambrano, chief executive of the group. The bond has a maximum term of 12 years and an initial coupon of 11 per cent, rising to 13.54 per cent for the last nine years.

Cemex is also planning to list its own shares on Nasdaq later this year. Completion of the convertible bond issue brings to $250m placements made by Cemex in the international markets over the past eight months.

Mr Zambrano said that the holding company's aim was to reduce its debt-equity ratio to about 60 per cent at the end of this year and eventually to about 45 per cent.

CP programme doubled to £200m

By Andrew Freeman

PHH Corporation, the first company to issue sterling commercial paper when the market began in 1986, has doubled its existing commercial paper programme to £200m.

The Swindon-based company, which operates vehicle fleet management and property-related services through two main subsidiaries, said the increase was to allow the replacement of some existing borrowings. Its original CP programme was fully utilised a few months ago.

The dealers for the expanded programme are Barclays de Zoete Wedd, Midland Montagu, NatWest Capital Markets and S.G. Warburg Securities.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1990 to date	Fri Jun 15 Index No.	Thu Jun 14 Index No.	Wed Jun 13 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (198)	909.58	-0.6	12.77	5.05	9.54	17.22	915.50	915.44	915.15	957.64
2 Building Materials (27)	1133.56	-0.7	13.72	5.31	9.02	25.77	1141.65	1138.28	1133.39	1183.19
3 Contracting, Construction (36)	1421.86	-1.1	16.93	5.78	7.69	34.64	1437.63	1436.61	1437.62	1628.98
4 Electricals (10)	2619.14	-0.6	10.86	5.13	11.33	61.43	2635.77	2647.18	2647.62	2796.58
5 Electronics (29)	1898.86	-0.2	9.79	3.97	13.24	21.38	1903.19	1897.63	1913.75	2249.81
6 Engineering-Aerospace (8)	491.70	-1.1	13.18	4.74	9.04	9.42	496.92	499.78	502.02	0.00
7 Engineering-General (43)	503.19	-0.4	11.50	5.06	10.50	8.93	505.10	504.52	504.53	0.00
8 Metals and Metal Forming (6)	496.76	-0.5	23.63	6.77	5.01	2.46	499.49	498.27	499.03	517.40
9 Motors (15)	376.62	-0.7	14.76	6.15	7.90	9.81	379.45	372.00	371.50	322.12
10 Other Industrial Materials (24)	1657.48	-0.8	10.69	4.84	10.80	34.38	1670.01	1670.69	1672.65	1585.27
21 CONSUMER GROUP (179)	1315.24	-0.8	9.27	3.84	13.33	19.74	1325.73	1337.69	1338.50	1265.00
22 Brewers and Distillers (21)	1624.16	-0.6	9.44	3.58	12.81	23.35	1634.16	1634.79	1638.69	1321.00
25 Food Manufacturing (20)	1106.77	-0.7	10.30	4.32	12.02	17.76	1114.80	1122.22	1119.83	1083.90
26 Food Retailing (16)	2470.49	-0.9	9.40	3.33	13.66	33.61	2492.35	2498.64	2500.09	2299.40
27 Health and Household (15)	2606.67	-0.6	6.60	2.66	18.03	24.15	2621.92	2648.27	2652.07	2216.34
29 Leisure (31)	1493.11	-1.0	9.80	4.14	12.41	24.36	1508.72	1519.74	1515.48	1651.49
31 Packaging & Paper (13)	607.26	-0.8	11.09	5.66	11.13	11.83	612.25	616.55	611.66	567.53
32 Publishing & Printing (16)	3553.29	-0.7	10.09	3.19	12.42	79.26	3577.76	3591.33	3599.94	3542.78
34 Stores (35)	831.14	-1.2	10.73	4.50	11.93	15.30	841.56	862.82	866.32	804.89
35 Textiles (12)	503.08	-0.5	12.57	7.11	10.19	16.06	505.37	512.96	515.42	554.98
40 OTHER GROUPS (104)	1203.84	-0.7	10.80	4.89	11.53	14.99	1212.88	1219.21	1209.57	1127.66
41 Agencies (17)	1745.49	-0.7	5.77	2.19	20.97	14.99	1757.73	1719.15	1695.80	1391.56
42 Chemicals (23)	1328.46	-0.3	10.61	4.98	11.03	31.17	1332.42	1336.87	1335.16	1276.55
43 Conglomerates (14)	1703.99	-0.8	9.89	3.80	12.14	25.40	1717.63	1722.51	1722.86	1595.59
44 Transport (13)	2306.98	-0.1	10.40	4.37	12.23	40.07	2303.59	2308.81	2297.31	2438.74
46 Telephone Networks (2)	1205.20	-1.0	11.64	4.67	11.76	0.00	1217.28	1222.38	1229.40	1119.74
47 Water (10)	1971.28	-0.5	17.64	4.87	6.28	0.00	1977.97	1983.04	1978.70	0.00
48 Miscellaneous (25)	1811.04	-1.6	11.94	4.86	9.55	36.78	1840.47	1825.37	1807.15	1708.53
49 INDUSTRIAL GROUP (481)	1192.97	-0.7	10.60	4.46	11.50	18.09	1201.88	1205.53	1205.87	1149.14
51 Oil & Gas (19)	2293.56	-0.7	12.29	5.39	10.75	46.50	2309.57	2321.03	2316.37	2066.03
59 500 SHARE INDEX (500)	1285.83	-0.7	10.83	4.59	11.40	20.39	1295.36	1299.62	1299.59	1226.97
61 FINANCIAL GROUP (107)	801.17	-1.1	-	5.69	-	21.37	810.05	814.94	818.64	776.88
62 Banks (9)	844.09	-1.2	19.44	6.37	6.73	25.62	854.68	862.16	873.35	719.21
65 Insurance (Life) (7)	1422.40	-1.0	-	5.17	-	36.94	1436.39	1439.25	1456.42	1505.02
66 Insurance (Composite) (6)	697.41	-1.4	-	5.93	-	19.43	707.03	713.98	711.01	563.57
67 Insurance (Brokers) (7)	1022.41	-3.1	8.49	6.38	15.52	27.41	1055.09	1059.29	1057.76	966.87
68 Merchant Banks (7)	454.60	-0.4	-	5.86	-	8.55	456.22	456.35	455.55	327.81
69 Property (47)	1090.35	-0.7	8.25	4.30	15.55	17.70	1097.75	1100.66	1095.54	1308.90
70 Other Financial (24)	300.85	-	12.32	6.43	10.60	5.96	301.02	301.75	308.86	356.78
71 Investment Trusts (67)	1223.81	-0.5	-	3.18	-	15.14	1229.50	1227.79	1228.17	1141.24
81 Overseas Traders (5)	1422.40	-0.4	9.76	6.42	12.28	43.49	1428.55	1435.15	1443.23	1289.69
99 ALL-SHARE INDEX (679)	1169.29	-0.8	-	4.71	-	20.15	1178.39	1182.61	1183.41	1103.16

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 15	Jun 14	Jun 13	Jun 12	Jun 11	Year ago
FT-SE 100 SHARE INDEX♦	2370.5	-21.8	2394.5	2367.4	2392.3	2403.0	2405.4	2370.7	2348.8	2154.7

FIXED INTEREST

PRICE INDICES	Mon Jun 18	Day's change %	Fri Jun 15	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	115.21	-0.14	115.86	0.48	6.27
2 5-15 years	121.33	-0.63	122.30	0.20	6.80
3 Over 15 years	125.09	-0.76	126.05	-	5.77
4 Irredeemables	144.33	-0.31	144.78	-	6.36
5 All stocks	121.41	-0.47	122.28	0.29	6.59
Index-Linked					
6 Up to 5 years	146.25	-0.09	146.27	-	1.49
7 Over 5 years	138.55	-0.49	139.23	-	1.72
8 All stocks	139.00	-0.46	139.64	-	1.70
9 Debentures & Loans	98.72	+0.31	98.42	-	5.64
10 Preference	73.90	-0.44	74.23	-	3.09

AVERAGE GROSS REDEMPTION YIELDS		Mon Jun 18	Fri Jun 15	Year ago (approx.)
British Government				
1 Low	5 years	11.07	11.02	10.03
2 Coupons	15 years	10.77	10.69	9.57
3	25 years	10.68	10.63	9.39
4 Medium	5 years	12.09	11.97	11.09
5 Coupons	15 years	11.24	11.13	10.02
6	25 years	10.86	10.77	9.56
7 High	5 years	12.19	12.08	11.23
8 Coupons	15 years	11.49	11.38	10.24
9	25 years	11.09	11.00	9.74
10 Irredeemables		10.65	10.61	9.39
Index-Linked				
11 Inflation rate 5%	Up to 5yrs	5.29	5.25	3.85
12 Inflation rate 5%	Over 5 yrs	4.18	4.15	3.79
13 Inflation rate 10%	Up to 5yrs	4.16	4.10	3.04
14 Inflation rate 10%	Over 5 yrs	3.99	3.95	3.61
15 Debs &	5 years	13.59	13.93	11.86
16 Loans	15 years	12.87	12.92	11.56
17	25 years	12.87	12.91	11.26
18 Preference		12.50	12.40	10.99

♦Opening index 2389.9; 9 am 2389.8; 10 am 2387.0; 11 am 2381.4; Noon 2377.3; 1 pm 2377.2; 2 pm 2376.7; 3 pm 2373.6; 4 pm 2369.7; 4.10 pm 2369.9. [illegible] A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p. CONSTITUENT CHANGES: [illegible] PLEASE NOTE: The Fixed Interest indices printed in the first edition on June 16 were incorrect. Corrected figures were published in later editions.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	84	12
Corporations, Dominion and Foreign Bonds	1	5	13
Industrials	290	414	873
Financial and Properties	101	201	440
Oils	25	28	15
Plantations	1	-	9
Mines	51	16	98
Others	55	81	112
Totals	528	830	1,592

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings June 18
- Last Dealings June 29
- Last Declarations Sept 20
- For settlement Oct 1

For rate indications see end of London Share Service

Calls in Aarenson, Aviva Pet., Bula Res., Simco Inds., Eldridge Pope, Gaelic Res., Ivernia West, Monument Oil, Sempernova, Tubular Edgington and Tusker Res. Put in Sketchley. Put and call in Aviva Pet.

LONDON TRADED OPTIONS

[illegible]

Core 'chore' businesses lift BET 19% to £322m

By Jane Fuller

BET, the acquisitive services company which has been described as being in the "chore business", increased pre-tax profit by 19 per cent to £322.3m in the year to March 31.

Turnover grew by 21 per cent to £2.69bn.

The advances were greater in the core "support services" part of the business. Figures declined for the activities which are for sale – Anglian Windows, Boulton & Paul (Joinery), Hestair consumer products and a 28 per cent stake in Thames Television – partly by comparison with a year which included a contribution from publishing.

Operating profit from support services, which include textile rental, cleaning, plant hire and distribution, increased by 40 per cent to £312.1m. About half came from acquisitions – BET made 52 purchases last year, including the Hestair employment agency for £192m, compared with 85 in the previous 12 months.

After spending £438.5m on acquisitions and a further £266.9m on capital projects, net borrowings at the year-end more than quadrupled to £434.2m (£98m) and gearing shot up from 18 to 81.1 per cent.

Mr Nicholas Wills, chief executive, said attention was now being focused on internal growth. The disposal of non-core businesses would greatly reduce borrowings (it has been estimated that Anglian and B&P will raise more than £300m). But he warned that the sales might take longer than had been hoped.

He also pointed to the impact of goodwill write-offs on shareholders' funds; if they were written back in, gearing would have been 23 per cent. The doubled interest bill of £42.4m was covered 8.6 times.

Geographically, the UK accounted for 60 per cent of sales and 67 per cent of operating profit in support services. The fastest growing area was North America, where profit more than doubled thanks to improved margins in textile rental, Hestair's three-month contribution and strong demand in plant hire and distribution. Continental Europe grew by 49 per cent.

Within support services, industrial and commercial activities contributed about 45 per cent of the £2.3bn (£1.73bn) sales and a slightly higher proportion of the £312.1m (£223.1m) operating profit. Textile rental and washroom services earned the most, followed by cleaning.

Mr Wills complained about the stubbornly low margins in the work contracted out by local councils and health authorities. It was taking a long time for attitudes to change, he said.

On the plant and construction side, profit rose to £112.4m (£73.7m) on sales of £805.2m (£613.2m). He said the slumps in housebuilding and home improvement hardly affected the core businesses, which were involved in heavier projects such as road building and the Channel tunnel. He did admit, however, that margins were coming under some pressure.

In distribution, a profit of £51.2m (£35.1m) was made on sales of £459.3m (£364.4m).

Earnings per share, after paying out £13.5m in preference dividends, went up by 12 per cent to 28.5p (25.5p).

A proposed final dividend of 9p makes a total of 13p (11.5p).

See Lex

Jaguar man welcomed into BAA fold

Paul Abrahams and Kevin Done on Sir John Egan's move from cars to airports

THE APPOINTMENT of Sir John Egan, former chairman of Jaguar, the UK luxury car manufacturer, to the position of chief executive of BAA has intrigued and surprised both the City and BAA employees who expected the job to go to someone previously associated with the aviation business.

Indeed Sir John will not easily be anyone's deputy. And he will need to establish quickly an effective working relationship with Sir Norman Payne, the chairman of BAA who led the former British Airports Authority through privatisation in 1987, has been at the company since 1965 and whose style of management has been described as "autocratic".

BAA will want to avoid a repeat of the well-publicised personality clash between Sir Norman and Sir John's predecessor, Mr Jeremy Marshall, a former employee of Hanson, over the running of the company.

This ended last summer with Mr Marshall leaving the company under a cloud but with substantial compensation.

It is understood that negotiations over Sir John's responsibilities and duties at the company were lengthy. Sir Norman said yesterday that he would be looking after relations with the City and Government, while Sir John would take on the role of a hands-on manager.

Sir John has no need to re-enter business – he is financially independent, having become a millionaire from the sale of Jaguar to Ford. And he has made it abundantly clear in the last six months that a condition of any job he took on after Jaguar, would be that he was running his own ship.

In the wake of Ford's £1.4bn takeover of Jaguar he declared openly, "I did not want to run a subsidiary of a large company, that would have been a problem for me. I want the independence of action I have grown used to."

He has supervised the transition for Ford, but from the outset it was plain that he was looking for another high profile job in British industry, and it did not have to be in the motor industry.

"I am a straightforward capitalist businessman, not a professional car man stuck to one industry," he said in March when he announced his pending departure from Jaguar at London's Waldorf Hotel.

He admitted to having received "a few approaches, four or five". Most recently his name was speculatively linked with the chairmanship of National Power, the largest generating company in the electricity privatisation programme, and earlier with British Rail.

Sir John, who joined Jaguar in 1980 and led its privatisation from the state-owned British Leyland group in 1984, has been one of the main symbols of the Thatcher Government's privatisation programme. He left the company on the highest note with a second victory in three years in the Le Mans 24-hour endurance race at the weekend.

Sir John arrives at BAA at a time when the organisation is preparing itself for considerable challenges in the 1990s.

The company is preparing itself for the first statutory quinquennial reviews by the

Monopolies and Mergers Commission set up by the Government before BAA's privatisation.

The review, due in 1992, will examine the company's operations at the south-east airports to ensure it is not exploiting its potential monopoly in the region.

Sir John will also need all his business experience to steer the company through a vast £1.2bn capital expenditure programme in new terminals and facilities over the next five years. This includes a new terminal at Stansted.

The timing of such expenditure is crucial. If the investment comes too soon, the facilities will be under-utilised and provide little return on capital. If too late, the company runs the risk of falling foul of the regulators for not investing enough in the country's airport infrastructure. The number of passengers at UK airports is set to double by the year 2005.

Sir John will also need to demonstrate his political skills. The Civil Aviation Authority is due to make a report this summer for the Department of Transport proposing the site of a new runway in the south-east of England. Whichever location is chosen, it is bound to cause a political furore.

Sir John will also need to demonstrate other political skills. AOT, the industrial services group headed by Mr Michael Ashcroft, has built up a 9 per cent stake in BAA, but is unable to take it beyond 15 per cent by the Government's special or golden share. Sir John has bitter experience of golden shares at Jaguar when the Government pulled the carpet from under him by ceding it.

Sir John's appointment will inevitably lead to speculation that, in the near future, he will replace Sir Norman, who is 68 and whose contract is due to expire in July next year.

Sir Norman assisted such speculation yesterday when BAA held a press conference to announce the year's results, and he said that Sir John would be "a hand-over, sorry, hands-on manager".

Wembley moves to raise £38m

By Jane Fuller

WEMBLEY, the leisure group which owns the national football stadium, is raising £37.5m through the sale and leaseback of the Wembley conference centre, exhibition hall and an office block.

Sir Brian Wolfson, chairman and chief executive, said the cash would be used to reduce gearing from about 100 to 75 per cent, about the same as it was at the December year-end.

At that time its net assets were £155.45m.

Gearing had gone up since then because of the $92.5m (£55m) purchase of five greyhound tracks in the US, to add to the six it owns in the UK.

The buildings are being bought by Amson Properties, part of the Kingstar Estates group.

Wembley has entered into 27-year leases and the initial rent is £4m a year. The tenants of the office block, MW Kellogg and Brent Council, pay annual rent totalling £1.5m. Revenues from the conference centre and exhibition hall amounted to £4.2m last year.

The move follows Wembley's policy of reducing its property activities to concentrate on the provision of sport, entertainment and services to the leisure industry.

Sir Brian, however, said it was a one-off transaction on assets that were conveniently linked together, and the option had been retained to buy them back.

There were no plans to sell and leaseback the football stadium or the indoor arena.

He added that the group was generating "quite a lot of cash" this year.

Its capital spending would be about £20m, including the doubling of its exhibition facilities by building a 65,000 sq ft hall.

Since last May, the group has made four significant acquisitions: Meridian Holdings, which is involved in arena refits, joinery and interiors, for £15.5m; Juliana's hospitality and disco company for £22m (the disco part has since been sold for £10m); Guild Entertainment, a film distributor, for up to £25m; and the US greyhound tracks.

Wembley embarked upon these acquisitions after losing out in the race for Thomson T-Line, owner of the Vernons football pools business, which was bought by Ladbroke.

Last year Wembley made pre-tax profits of £11.2m on turnover of £76.3m.

'Sparkling' 29% advance to £256m higher than City forecasts

BAA, formerly the British Airports Authority, yesterday announced an increase of 29 per cent in pre-tax profits for the year to March 31, writes Paul Abrahams.

The results were linked to healthy growth in passenger and cargo volume at the company's airports, as well as buoyant commercial activities.

The increase in profits from £198m to £256m was above analysts' forecasts. They did not include an exceptional and unrepeatable deferred tax provision of £76.3m caused by changes in depreciation charges.

Turnover expanded from £641m to £747m. Earnings per share, excluding the exceptional tax credit, increased from 27.4p to 37.2p.

The directors propose a final dividend of 7p (5.5p) making 11.5p (9p) for the year.

A external revaluation of some of the company's assets, including terminals, aprons and runways, provided a net asset value of 765p per share.

However, the valuation was not included in the balance sheet. The company stressed it was not considering disposing of any assets.

Analysts described the results as sparkling. Mr Ian Wild, an analyst at BZW, said there were few companies in the world at the moment capable of producing a 36 per cent increase in earnings and a 27 per cent increase in dividends.

The shares closed 7p up at 423p, bucking the market trend.

The number of passengers using BAA's seven main airports, which include Heathrow, Gatwick and Stansted, grew 5 per cent from 68m to 71m, in spite of a 9.2 per cent downturn in the charter market.

Cargo volume increased 7 per cent from 918,000 tonnes to 985,000 tonnes. Revenue from airport duties increased from £260m to £294m. Other airport income increased from £337m to £391m.

Sales of duty and tax free items were disappointing, however, falling 2 per cent in real terms. Other commercial activities grew 8.8 per cent from £96.9m to £119.4m.

Although staff costs were down in real terms, BAA was obliged to spend more on security last year following the Lockerbie bombing.

Additional security measures cost the company £10.5m on top of its existing security budget of £64.4m. BAA said it hoped to pass on the additional costs to the airlines next year.

Silence falls on Globe bid

By Nikki Tait

SILENCE REIGNED yesterday in the £1bn bid battle between the British Coal pension funds and their target, Globe Investment Trust.

This was in spite of the fact that Monday represented "day 39" of the bid – the last date on which Globe could make new financial information available to shareholders.

It was also the second closing date for the BCPF offer. However, given the market's general expectation that BCPF will need to raise its terms to win control, the figure for acceptances at this stage is likely to be of mainly academic interest.

In the event, neither party released any statement, although BCPF will have to post the latest acceptance level today.

Interest hits CPU profits

Doubled net interest and similar charges at £938,000, against £449,000, caused a fall in pre-tax profits at CPU Computers, the USM-quoted distributor of computer peripheral equipment, in the year to December 31.

The taxable result was down at £534,000 (£864,000), though turnover rose 29 per cent to £60.45m compared with £47.01m.

However, the cost of sales was up 30 per cent at £51.27m (£39.38m).

This left gross profit at £9.18m (£7.63m) before other operating costs of £7.72m (£6.32m).

Earnings fell to 1.23p (4.33p) per share and a maiden dividend of 0.62p for the year is proposed.

The company said that the first half of the year had seen "steady" growth, but that this had fallen to "moderate" in the second.

Glynwed seeks new bid formula

By Nikki Tait

GLYKWED International, the engineering group, is attempting to formulate revised proposals for the acquisition of Alumasc, the beer keg maker, which would render a referral to the Monopolies and Mergers Commission unnecessary.

The deal was last week referred by Mr Nicholas Ridley to the MMC with the Secretary of State for Trade and Industry saying that his concerns centred on the possible effects of the merger on competition for metal rainwater products.

Glynwed's initial reaction was to express amazement at the decision, and to claim that plastics – rather than metal goods – dominate the rainwater products market.

Unusually, the £34m bid had already been declared unconditional as to acceptances when Mr Ridley's decision arrived. As a result, the offer does not have to lapse automatically on the referral, but can continue to run until June 28. Any extension beyond that date would require the Takeover Panel's permission.

Utilising this "window", the company's advisers pointed out yesterday that the bid was one of the first to be looked at under the new "pre-notification procedures" introduced for mergers and to be referred. They claimed that there may possibly be a lacuna in the new system, which prevented anyone from asking for – and Glynwed offering – undertakings with respect to a particular niche market affected by the transaction. Building products is one of only three divisions within Alumasc.

The advisers said the possibility of amending the proposed acquisition so that an MMC reference is rendered unnecessary was now being examined. However, both the company and its advisers concede that the issue is highly complex.

If no solution is available and Glynwed does decide to pursue the reference, it would eventually lapse the bid and return share certificates to Alumasc shareholders.

The transaction would be unscrambled in similar fashion if Glynwed was to walk away from the transaction altogether.

The company said it would make another announcement "as soon as practicable." "We are considering all the options," commented Mr Christopher Purser, the group's treasurer.

SI buy

The SI Group has exchanged contracts for the purchase of Annieston Farm, Scotland, for £654,000 cash.

The assets being acquired include 106 acres of gravel deposits with planning consent for the extraction of 1.2m tonnes of gravel together with outbuildings and some 375 acres of agricultural land.

UK COMPANY NEWS

Severn Trent beats forecast with advance to £130m

By Andrew Hill

SEVERN TRENT, one of the UK's largest water companies, reported pre-tax profits of £130m in the year to March 31, beating its own forecast by nearly £9m. A final dividend of 9.9p is recommended, matching the prospectus forecast.

Assuming Severn Trent had been floated with its new capital structure at the beginning of the financial year, the Midlands company would have made £217m before tax and after interest, compared with its forecast of £208m. Earnings per share would have been 56.4p, against a forecast of 53.7p, and the full-year dividend would have been 14.85p.

In 1988-89, Severn Trent made an adjusted £97.5m before tax, although that followed higher interest charges of £80.9m. Last year interest payments came down to £34m following the Government's write-off of debts and injection of a "green dowry" for all 10 former water authorities before privatisation.

Turnover for the 1989-90 year amounted to £544m, compared with £476m. The company said it had gross cash of just under £370m at the end of the year.

Further funds would have to be raised to continue the heavy investment programme, the group said, but executives ruled out any possibility of a rights issue.

In 1989-90 Severn Trent devoted £262m to its capital investment programme. Mr Roderick Paul, chief executive, said he preferred not to specify how much the company would spend in the current year: "We could spend £400m easily, but I would be concerned about how well we would spend it," he explained.

He added that some of the group's original priorities for capital investment had changed, although Severn Trent still expected to meet all its obligations to customers and the Government on drinking water purity and sewage treatment.

Two large French water companies – Lyonnaise des Eaux and Compagnie Générale des Eaux – hold stakes of 2.7 per cent and 4.04 per cent respectively, bought shortly after the December flotation.

There was an extraordinary charge of £8.9m, mainly representing the cost of preparing for privatisation.

● COMMENT

The Government's advisers burdened Severn Trent's shares with the second lowest dividend yield of the 10 water companies at the December flotation. Most analysts thought that rather harsh, and the handicapping system, rather than any management deficiencies, explains the comparatively unexciting share price performance since December. Profits should be flat for 1990-91 – rising perhaps to £220m – so the group's 180,000 shareholders will count instead on the company's longer term strengths, which include its land-locked position (fewer environmental worries about sewage-dumping) and a prudent attitude to diversification, involving small joint ventures. The partly-paid shares slipped 1p to 148p yesterday: they have improved against other water stocks and the market in recent weeks, and look fairly valued on a prospective yield of between 7 and 8 per cent.

Hard task of cleaning up a tarnished City image

Andrew Bolger on the horror story emerging for Sketchley shareholders

THE CHAIRMAN of a quoted company who describes a set of results as "truly dreadful," is obviously presenting bad news.

When that same non-executive chairman, Mr John Gillum, says he will resign soon and also announces the replacement of the company's merchant bank and stockbroker, one is clearly witnessing a genuine City horror story.

Not that bad news is any stranger to shareholders in Sketchley, the dry cleaning and vending group which yesterday reported annual pre-tax losses of £2m and a deeply discounted £20.6m rights issue to prevent the company from continuing to breach its bank borrowing limits.

Having seen their shares as high as 467p last year, yesterday's dire tidings knocked a further 20p off the Sketchley share price to 183p, which gives the company a market capitalisation of £66m.

That is is a long way short of the £133m which Godfrey Davis, the UK car dealing and laundry group, bid for Sketchley in February. Ironically, Godfrey Davis was scared off when Sketchley forecast profits of £6m for the year to March 31, well below the previous year's £17m.

Next to try and take advantage of Sketchley's troubles was Compass Group, the contract cleaning, healthcare and building services company, which made an all-paper offer worth £96.5m in March.

Compass was repulsed when institutional shareholders backed a new management team, Mr John Richardson, a former managing director of Bond Corporation (UK) and chief executive of Hong-Kong-based Hutchison Whampoa, and Mr Tony Bloom, ex-chairman and chief executive of Premier Group Holdings of South Africa.

The new team said yesterday that the £6m forecast at the time of the takeover attempts had turned into a £2m loss largely because of the more cautious accounting judgment which they had wished to exercise about the state of the businesses.

They had sought independent advice from Ernst & Young, chartered accountants, who had said that the revised accounting policies were not excessively prudent. Sketchley's existing auditors, KPMG Peat Marwick McLintock, have said they will accept the new assumptions.

The effect of the more prudent accounting judgment adds up to almost £7m – £3.4m for reassessment of bad and doubtful debts, £2.8m for reassessment of stock provisions and £773,000 for a write-off of fixed assets. Another £1m was accounted for by provisions for redundancy costs and other items, including the effect accounting changes.

Sketchley said the main change in accounting policy concerned the treatment of residual values of leased vending machines. Under the new policy, no account is taken of the residual values of machines, either on lease or on return from lease. The board said the new policy took account of the unpredictable and volatile market value of used machines.

Leasing is a familiar subject for Mr Gillum, who only became non-executive chairman on March 8, and who said yesterday that he would leave the board at the end of the forthcoming annual meeting. Mr Gillum was the last chairman of an independent Atlantic Computers, the leasing company which recently pulled down its parent, British and Commonwealth Holdings.

Sketchley acknowledged yesterday that "1989-90 has clearly been a nightmare year for the company; its results have been disastrous and its credibility has been severely shaken."

The vending division lost, at operating profit level, £1.3m, a negative swing of £6.5m from its reported operating profit for 1988-89. In fact, Sketchley said the division's real showing was considerably worse, as a major part of the exceptional charges in the accounts related to that division.

The company said: "This dismal trading position performance resulted from a combination of reduced sales and excessive and uncontrolled costs. Previous management had planned on an assumed boom in sales, which in the event did not materialise, and infrastructure had been built up in anticipation of an expansion in business."

Tighter financial controls had been introduced and the vending division's managing director had been replaced. The workwear businesses had been merged to reduce costs and a new managing director appointed from within the group. Both the vending and workwear businesses had been carrying excessive overheads and further cost reductions were planned.

However, the new management insisted: "Sketchley is a fine brand name and the two established core activities, dry cleaning and workwear, are both sound businesses and capable of improved efficiency and profitability, although current trading conditions are not helpful."

While ruefully acknowledging that things were a lot worse at Sketchley than they had expected, both Mr Richardson and Mr Bloom yesterday insisted that the company could be turned around, and that they were preparing for a long haul.

But where does that leave Sketchley's shareholders, who were only weeks ago being given a completely different view of their company by financial advisers who are among the best-known names in the City, and who shared in the £1.8m in fees which Sketchley spent defending itself against Godfrey Davis and Compass?

The Takeover Panel has confirmed that it will ask NM Rothschild, Sketchley's merchant bank, to explain why the £6m profits forecast made on March 1, and repeated a month later, had so quickly been proved wrong.

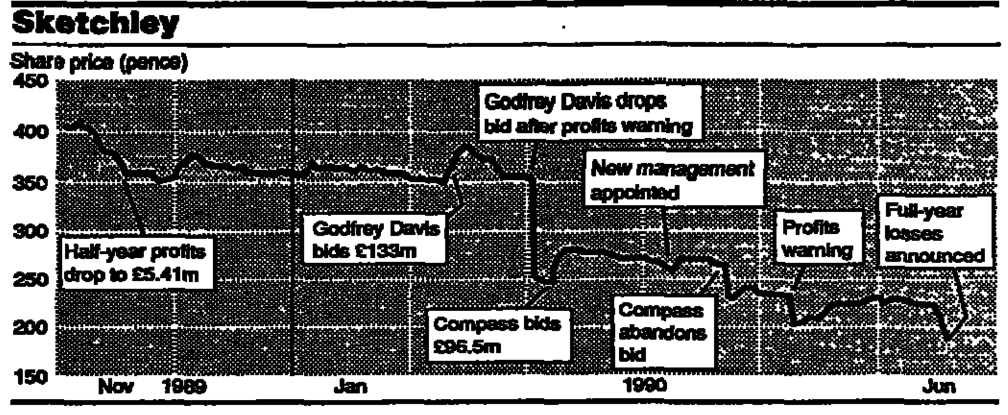
NM Rothschild said yesterday that most of the provisions made which led to the loss reflected changes in judgment by the new management. The bank was confident that had the previous management continued, the £6m profits forecast would not have been missed by very much.

Mr Gillum said that until the beginning of the year he had no idea of the optimistic assumptions being made about residual values of vending machines. As a non-executive director, he trusted the existing management and their financial advisers. He now found it extraordinary that the same firm of auditors could endorse accounts based on such radically opposed judgments.

The new management team said yesterday that they had not ruled out seeking damages from all or some of the parties involved, but said they had been so busy fire-fighting that they had not had time to obtain legal advice on the prospects of litigation succeeding.

Whatever the Panel or courts finally decide, it seems unlikely that the Sketchley affair will do anything to clean up the image of the City in the eyes of shareholders.

Sketchley



Alan Cooper warns on profits

Directors of Alan Cooper Holdings said yesterday that turnover and profits for the first half of the 1990 year were likely to be broadly in line with the £6.57m and £1.33m achieved for the second half of last year.

For the opening half of the current 12 months turnover and profits totalled £6.54m and £1.75m respectively.

They added that in the light of a continuing weakness in the office furniture market they had implemented a cost-cutting programme which included the loss of some 35 jobs at the Todmorden factory in West Yorkshire.

Directors said the group had a healthy cash balance and no borrowings.

They intend to maintain the 1990 dividend at the previous year's 7.7p level.

The shares closed 15p lower at 150p.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
BAA	fin	7	-	5.5	11.5	9
BET	fin	9	-	8	13	11.5
CPU Computers §	fin	0.62	-	-	0.62	-
Hadleigh Inds §	fin	4	-	-	6	-
Hewetson §	fin	2.9	Oct 1	2.6	4.5	3.85
Melville St Invs	fin	3	Aug 24	2.5	4	3
Polar Electe §	int	2	Aug 6	-	-	2.5
Reject Shop §	fin	2.1	July 31	2.1	3.15	3.15
Renold	fin	2.5	Aug 10	2	3.7	2.8
Security Arch §	fin	4	-	3	6.5	5
Severn Trent	fin	9.9	Oct 1	-	9.9	-
Sketchley	fin	nil	-	14.4	6.5	20.9
Somic	fin	1.5	Aug 17	2.25	2.5	3.25
Syltone	fin	6	-	4.75*	8	6.75*
Treatt §	int	1	Oct 9	1	-	3.25

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interim- Archimedes Investment Trust.

Finals- Continuous Stationery, GS International, Jones & Shipman, ML Holdings, Shanks & McEwan, Stoddard Sekers International.

FUTURE DATES

Interims:
Bell (AH) June 25
Central Motor Auctions July 18
Colorvision June 22
Hoskyns June 26
Mid Kent June 21
Wiggins Office Equipment June 28

Finals:
AAH June 28
Anglo United June 28
Ashtead July 20
Berkeley June 27

Hewden Stuart chief cautious

Sir Matthew Goodwin, chairman of Hewden Stuart, told the annual meeting that the group would do well if it could maintain last year's trading profits.

In his circulated report he indicated that profits in the current year would move ahead again.

However, since then the outlook for the construction industry had become more difficult.

Kleinwort Charter

Kleinwort Charter Investment Trust had an nav of 190.5p (181.6p) at May 31. Net earnings for the six months were £2.46m (£1.73m); earnings 3.03p (2.14p) and interim dividend 1.2p (1.075p).

UK COMPANY NEWS

ECC sustains £2.9m loss on sale of Bryant stake

By Nikki Tait

ECC GROUP, formerly English China Clays, yesterday sold its 29.02 per cent stake in Bryant Group to institutional investors for just under £50m.

Bryant is the housebuilding and contracting company for which ECC made an abortive £187m bid late in 1986.

The sale nets ECC some £49.9m. This compares with the £52.8m cost of acquiring the shares, which were picked up during the course of the fiercely-fought bid battle. The ECC offer finally lapsed in January 1987, with the bidder only able to claim control of 46.9 per cent of its target's shares.

The holding was placed by Charterhouse Tilney, the stockbrokers, at 84p per share, compared with a closing price of 94p on Friday night. ECC said yesterday that Charterhouse, which does not act as broker to either company, had approached it for the stake.

According to Charterhouse, the shares went to a wide range of about 20 institutions. ECC shares greeted the news of the placing with a 12p rise to 402p, before closing at 400p, while Bryant closed yesterday at 86p.

ECC's decision to sell its stake comes as no surprise. In May, the company announced plans to acquire Georgia Kaolin, a US-based company which mines and processes kaolin and which was previously owned by ABB Asea Brown Boveri, for $520m.

Talking about the sources of funding for the deal, ECC said that it would raise at least £100m from the sale of non-core assets during 1990 and 1991.

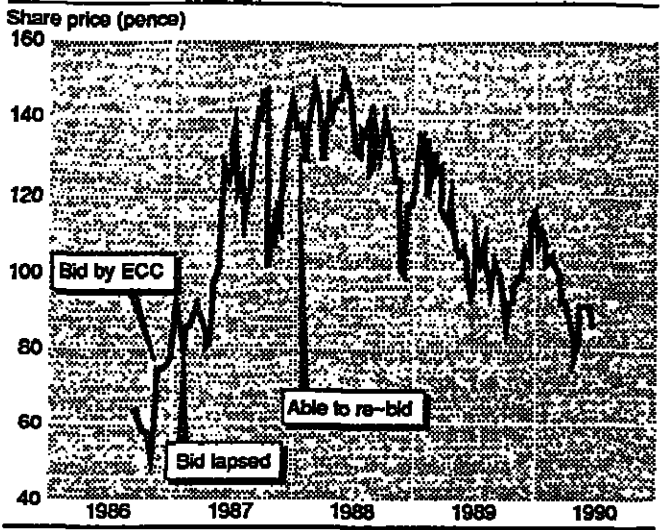
Although ECC declined to comment on which assets might be up for disposal, analysts were quick to pinpoint ECC's housebuilding interests, and the Bryant stake in particular, as possibilities.

Yesterday, ECC said that the Bryant stake would probably be the single most significant disposal, but that a "fairly radical review" of the company's assets had been carried out.

Other deals were likely to surface in the coming months, it suggested.

Bryant, which was not forewarned about the stake sale, said that it was "very pleased that the situation has been resolved in the best possible way".

Bryant Group



Reject falls to £0.74m and board reshuffled

By Clare Pearson

MRS ANNA Vinton and Mr Anthony Hawser, who have together run Reject Shop since they founded it in 1972, are to become joint chairmen, relinquishing day to day management of the USM-quoted household goods retailer to Mr Geoffrey Frost, currently assistant managing director.

The board changes were announced yesterday along with the company's results for the year to March 18. These showed pre-tax profits down at £743,000 (£1.46m) on sales of £17.38m (£16.26m). Mrs Vinton said this came about in "the most difficult trading environment I have seen in 17 years."

Mrs Vinton and Mr Hawser, previously joint managing directors, succeed Mr Jack Aaronson who is stepping down as non-executive chairman because he had reached retirement age, the company said. Mr Hawser is also to be chief executive. Additionally, Mr John Beer, currently financial controller, is joining the board as finance director.

The pre-tax profit was struck after a turnaround in net interest from £73,000 receivable to £121,000 payable.

Mrs Vinton said last year marked the first-ever fall in Reject Shop's turnover, which on a like-for-like basis, taking out contributions from new shops, was down 10 per cent. Depressed demand for furniture items, in a context of higher UK interest rates and lower housing starts, was behind the decline.

However, she said Reject Shop had moved swiftly during the year to reallocate space previously taken up by heavy furniture to lower-price furniture and an expanded range of giftware and houseware.

On current trading, Mrs Vinton said furniture sales were slightly ahead of last year and trading in other departments was encouraging. "But sales are erratic and difficult to predict," she added.

The purchase of a new outlet in Cornmarket Street, Oxford, in March had demonstrated the opportunities becoming available to pick up prime high street sites. This year the company would be seeking to acquire further such units. A shop in Cardiff was due to open at the end of the year.

Reject Shop currently has net gearing of 7 per cent and, reflecting the declining furniture content, stocks for resale are at lower levels than last year.

For 1989-90 earnings per share fell to 4.58p (9.15p). A same-again 2.1p final dividend is proposed, making an unchanged 3.15p for the year.

Cost cutting behind Renold's rise to £9.5m

By Nigel Clark

COST Reductions, particularly in merchanting operations, were behind a 32 per cent rise to £9.5m in pre-tax profits at Renold in the year to the end of March. Mr Peter Frost, chairman, said that the results were in line with expectations.

He added that they represented a further improvement in the group's performance. In the year to end-March 1987 profits for this Manchester-based maker of power transmission products and machinery were down to £100,000 on turnover of £128.4m.

On prospects Mr Frost said that while the UK economy was weakening many of the company's overseas markets were still strong.

The pre-tax figure was struck after a lower interest charge of £1m (2.5m), resulting from the disposal of surplus assets and tighter management of working capital. It included exceptional profits of £300,000 (£200,000) being the surplus on the sale of properties, less restructuring costs.

Turnover for the period was up only 2 per cent at £148.3m, against £145.4m, when the taxable profit was £7.2m. Although sales volumes showed little increase overall there was encouraging growth in a number of areas, including chain in West Germany, newly-launched gear products and rotors, said Mr Frost. Some unprofitable factored products had been discontinued.

The second half of the year had borne the costs of forming a single integrated chain business, which would continue in the present year. Mr Frost said that during this development greater opportunities for organic growth had been identified than at first had been envisaged.

Manesty Machines, the pharmaceutical equipment business, was sold to Barry Wehmiller for £6.75m cash and was the main factor behind the extraordinary credit of £2.3m (£300,000). The company was said to be outside the group's mainstream activities.

Tax took £2.3m (£1.5m). Earnings per share came out at 11p (8.5p) and the directors are recommending a final dividend of 2.5p making a total for the year of 3.7p, compared with 2.8p.

The shares fell 3p to close at 97p.

NEWS DIGEST

Hewetson achieves 21% rise

HEWETSON, the USM-quoted manufacturer, supplier and installer of raised access and hardwood floors, was "pleased to be able to report a year of progress" in the year to March 31, "a difficult one".

Steady progress over the past four years continued with taxable profits advancing 21 per cent to £2.21m (£1.82m). Turnover was 38 per cent ahead at £34.08m (£24.73m) and after tax of £789,000 (£641,000), earnings per share worked through at 16.6p (13.54p) undiluted and 14.19p (12.31p) fully diluted.

The final dividend is raised to 2.9p for a total of 4.5p (3.85p) for the year.

Mr Peter Price, chairman, said that the floors and carpets divisions had performed well in the period. Floors achieved profits of £1.13m (£680,000) pre-tax on turnover of £22m (£14.92m), while carpets made £954,000 (£597,000) on turnover of £8.32m (£5.4m).

The window company, however, was affected by the downturn in private housebuilding and contributed a lower £120,000 (£544,000) on turnover down at £3.77m (£4.42m).

JMD declines to £301,000

JMD Group, the USM-quoted manufacturer of greetings cards and packaging and merchandiser of novelty products, experienced a fall from £1.61m to £300,718 in pre-tax profits for the year to December 31. Turnover of £11.87m compared with £12.19m.

Directors said that in spite of a good continuing performance from Downpace, acquired at the end of 1988, the group had incurred a trading loss in the first four months of the current year – traditionally its weakest trading period.

Steps were being taken to dispose of surplus properties and thought was being given to the sale of the company's 25 per cent holding in Hitech Lighting. Talks with a number of parties were taking place on these and other fronts.

They recognised that the future potential of continuing businesses could only be realised if they formed part of a larger grouping.

Consequently, provided that group borrowings were reduced to a more acceptable level, acquisitions of complimentary businesses would need to be sought.

Fully diluted earnings emerged at 0.23p (1.53p) or 0.5p (2.44p) basic. There was a £2.76m (nil) extraordinary loss.

Cost control boosts Polar Electronics

Polar Electronics, the Bedfordshire-based electronic components distributor, saw interim taxable profits rise 13 per cent, from £533,000 to £601,000. The company said the improvement was due to keeping a tight control over gross margins and costs.

Demand was not expected to improve significantly in the second half but, with increased product and customer coverage, a satisfactory result was expected. In May, part of Hawke Components was acquired.

Turnover for the six months to March 31 was £6.76m (£7.01m). Earnings per share were 4.9p (5.6p) and an initial interim dividend of 2p is being paid. The company joined the USM in July 1988.

Syltone progresses with gain to £2.4m

Syltone, the transport engineering services group, reported a 16 per cent rise to £2.41m in pre-tax profits for the year to March 31.

The increase from £2.09m was struck on turnover up from £29.74m to £32.61m. Basic earnings rose to 19.44p (16.3p) per share and fully diluted to 17.54p (14.88p). The proposed final dividend is 6p (4.75p adjusted after last July's one-for-one scrip issue) for a total of 8p (6.75p adjusted).

Mr Tony Clegg, chairman, said that the results reinforced Syltone's policy of concentrating its activities within the international transportation industry. He added that the British truck market was likely to remain depressed next year, but the particular applications, in which the company specialises, possess above-average growth prospects.

Enlarged Hadleigh surges to £2.04m

Profits of Hadleigh Industries, a storage tank and trailer manufacturer, accelerated from £993,000 to £2.04m pre-tax for the year to end-March.

Sales of the group, enlarged via the £3.58m acquisition in December of Lynton, a specialised lightweight trailers manufacturer, expanded from £19.02m to £25.65m.

Earnings worked through at 20.7p (11.7p) and a final dividend of 4p makes a 6p total. The group's shares were placed on the USM a year ago at 160p each. They closed yesterday 5p higher at 198p.

Treatt falls to £502,000

First-half profits of Treatt, a USM-quoted supplier, blender and distiller of essential oils and aromatic chemicals, fell from £774,000 to £502,000 pre-tax.

The reduction stemmed from a significant decline in first quarter sales due mainly to lower prices and sales volume in orange oil. Sales for the six months to end-March fell from £6.2m to £5.32m.

Earnings emerged at 3.46p (5.59p) per 10p share and the interim dividend is a same-again 1p.

£1m downturn at Eldridge Pope

Eldridge Pope, the Dorset-based brewer, experienced a £1m fall to £51,000 in interim pre-tax profits and forecast that the full year outcome would be "substantially below" last year's £3.06m.

The company had warned of the downturn two weeks ago. It said beer volumes had been hit by the squeeze on consumer spending and margins had been reduced by heavy competitive discounting by its rivals. Sustained high interest rates had also undermined the property market, holding back many of its planned sales so that borrowings had remained higher than expected.

Action was being taken to restore profitability and to reduce borrowings, the directors said.

Turnover for the six months to March 31 was £700,000 higher at £20.27m but trading *profit fell from £2.2m to £1.8m*, and earnings per share dropped from 3.3p to 0.2p.

Interest payments, mainly associated with heavy investment in the redevelopment of the Highcliff hotel in Bournemouth, amounted to £1.15m (£663,000).

The interim dividend is unchanged at 1.75p.

Melville Street net assets increase 13%

Melville Street Investments, the development capital company, reported a net asset value of 160p at April 30, a rise of 13 per cent over 141p a year ago. Net assets were up from £26.32m to £29.86m.

Net revenue amounted to £895,000 (£640,000) and earnings increased to 4.8p (3.4p) per share. The final dividend is raised to a recommended 3p (2.5p) for a total of 4p (3p) for the year.

The company said that £3.3m was invested in new investments, an advance of 18 per cent over last time, and £1.5m was provided in support of existing investments. Mr George Philip, chairman, said that last year's change of policy, putting greater emphasis on providing finance for management buy-outs and the development of existing companies, had so far proved successful.

Somic profits halved in second half

Somic, the Preston-based kraft *paper spinner and weaver*, reported profits halved in the second half to leave the full-year result 29 per cent down at £206,000, against £291,000. At the interim stage profits were ahead at £103,000, compared with £90,000.

The company said that the main problems in the short term were high interest rates and high inflation. It added that the level of outstanding orders had improved.

Turnover in the year to the end of March was £3.9m (£3.46m). After tax of £71,000 (£95,000), earnings per share were 6.75p (9.84p). The proposed final is cut to 1.5p (2.25p) for a total of 2.5p (3.25p).

Security Tag in the black with $0.58m

Security Tag Systems, the US security system maker which is 30 per cent owned by Automated Security Holdings, announced profits of $576,000 (£337,000) after tax for the year to March 31 1990, compared with a $1.91m loss.

Turnover jumped 83 per cent to $13.58m ($7.41m) and other income added $561,691 ($315,841).

Mr Tom Buffett, chairman and chief executive of ASH, said the profits justified the long-term emphasis on research and development in a high technology sector. R&D costs this time were $929,546 ($1.12m).

COMPANY NEWS IN BRIEF

BCE HOLDINGS has disposed of certain machinery and equipment to SA Saluc of Belgium for £1.52m following cessation of snooker, billiard and pool ball manufacturing at Congleton, Cheshire. BCE retains the freehold premises at Congleton and intends to seek a purchaser for that property in due course. The company has also appointed a liquidator to its loss-making Canadian subsidiary BCE (Distributors).

CAMPBELL & ARMSTRONG has agreed to acquire LT Switchgear, a manufacturer, assembler and supplier of electrical switchgear. Consideration consists of an initial £500,000 in cash and shares. In addition, Campbell's has provided LT with funds totalling £335,000 to purchase the long leasehold on its premises and adjacent premises at a peppercorn rent.

CASKET's rights issue of 37.74m ordinary shares has been taken up as to 20.52m shares (54.38 per cent).

CI GROUP shareholders were told at the annual meeting that the first quarter's results were ahead of the comparable period.

CRYSTALATE – *The offers by* TT Group for the company's ordinary and preference shares together with the 8.25 per cent loan stock have been extended until June 29. Together with shares already owned or acquired since the offers, the aggregate of acceptance totals 4.02m ordinary (12.73 per cent), 9,784 preference shares (6.52 per cent) and £213,083 nominal (2.28 per cent) of the loan *stock*.

DEWHIRST GROUP – Mr Anthony Vice, chairman, told the annual meeting that following a continuation of a downward *pressure on margins*, profits for the current half year would fall below those of the comparable period.

DOWTY GROUP has acquired 75 per cent of Hoybond, based in Wimbledon, for £415,000. Lockhead Corporation which had a 25 per cent stake in Hoybond is to retrain a 15 per cent interest and have a seat on the board of the renamed company, Dowty Hoybond. The *remaining 10 per cent share* will be kept by Mr David Jackson, the former managing director, who will be responsible for the operations of Dowty Hoybond.

COMPANY NOTICES

RAND MINES

(All companies incorporated in the Republic of South Africa)

DIVIDEND DECLARATION

BLYVOORUITZICHT GOLD MINING COMPANY, LIMITED
(Company Registration No. 05/09743/06)

Notice is hereby given that dividend No. 88 of 30 cents per share has been declared in South African currency, as a final dividend in respect of the year ending 30 June, 1990, payable to members registered at the close of business on 6 July, 1990. The register of members will be closed from 7 to 15 July, 1990, inclusive. Dividend warrants will be posted on or about 27 July, 1990.

The rate of exchange at which the dividend will be converted into United Kingdom currency for payment by the United Kingdom registrars and transfer agents will be the telegraphic transfer rate of exchange between Johannesburg and London ruling on the first business day after 7 July, 1990 on which foreign currency dealings are transacted.

Where applicable, South African non-resident shareholders' tax of 15% will be deducted from the dividend.

The full conditions of payment of this dividend may be inspected at or obtained from the Johannesburg or United Kingdom offices of the company.

DURBAN ROODEPOORT DEEP, LIMITED
(Company Registration No. 01/00926/06)

The board of directors of this company has decided not to declare a dividend for half year ending 30 June, 1990.

By order of the Board,
RAND MINES (MINING & SERVICES) LIMITED,
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18 June, 1990.

TECHNOLOGY

Kevin Brown on the Australian-built catamaran set to win the Blue Riband of the Atlantic

Seacat challenge to the liners

James Sherwood, president of Sea Containers, the British-based shipping and transportation group, takes on 150 years of history when his revolutionary ferry, Hoverspeed Great Britain, sails today from New York for first official attempt since 1952 on the Blue Riband for the fastest crossing of the Atlantic by a commercial ship.

The riband, otherwise known as the Hales Trophy, was first awarded in 1838, when the British steamer Great Western – the first to offer a regular transatlantic service – made the crossing in 12 days and six hours at an average speed of 10.2 knots, three days ahead of a rival ship, the Sirius.

Since then, competition between the US and half a dozen European countries has made the riband the most coveted trophy in the maritime world, with the possible exception of yachting's America's Cup. The record is held by the liner United States, which completed the crossing in three days, 10 hours and 40 minutes in 1952, at an average speed of 35.59 knots, overturning exactly 100 years of European domination of the route.

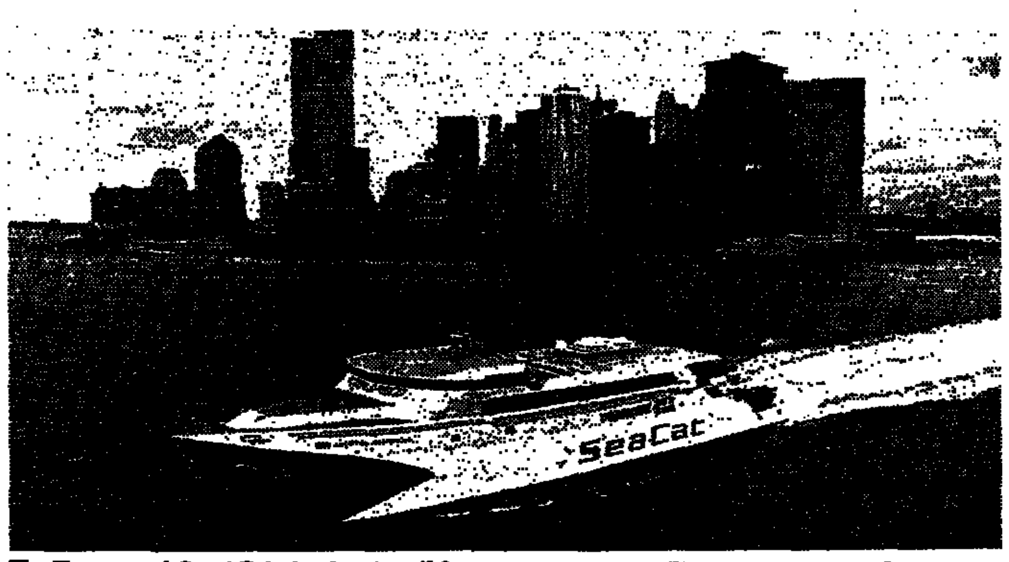
The US victory caused consternation in Britain, because it dispossessed the great liner Queen Mary, flagship of the British fleet, which had held the record since 1938 after crossing in three days, 20 hours and 42 minutes at an average speed of 31.09 knots.

There have been several unofficial attempts on the Blue Riband since 1952, most notably by Richard Branson, the British entrepreneur. However, like other challengers, Branson used a powerboat rather than a commercial ship, and also refuelled in mid-Atlantic.

But Hoverspeed Great Britain breaks new ground in a number of other ways – it is the largest catamaran ever built, the first catamaran to challenge for the trophy, and the first contender designed and built in Australia. It may also be the first ship of its kind where the designer admits that ignorance played a large part in his success.

Hoverspeed Great Britain will be skippered across the Atlantic by its builder, Bob Clifford, managing director of International Catamarans of Hobart, Tasmania. But Clifford will probably be less nervous than Philip Hercus, executive chairman of International Catamaran Design, who will follow events from Sydney.

Hercus says Hoverspeed Great Britain is capable of averaging 40 knots across the Atlantic, which means it could cut eight hours or so off the US record. "There is no question that the boat can beat the record. The Hoverspeed Great Britain will sail on Tuesday come hell or high water, and that means it may be hit by by adverse weather, but there is no doubt that it is capable of crossing in less than three days and ten hours."



The Hoverspeed Great Britain aims to sail from New York to the UK in just over three days

Hercus admits that he was unaware, when he started designing catamarans in 1977, of work which had been done by naval architects in the northern hemisphere to make them faster and more stable. Swedish designers in particular were then experimenting with asymmetrical hulls and at vessels which achieved higher speeds by planing above water.

But the concept of asymmetrical hulls turned out to increase resistance, rather than reduce it, while planing increases instability and would not be suitable for large passenger vessels, he says. "The design I came up with was an accident in the sense that I designed it without knowing what was being done in the northern hemisphere, and I was therefore not misled by it," Hercus says. "It was just good fortune that I was born and brought up in the Antipodes, and was unaware of what was going on in catamaran design elsewhere."

The first Hercus catamaran, built in 1977, was a conventional boat with two hulls divided by a central platform. However, the long, narrow hulls were had a sharper than usual at the bow, and had a deep V shape which tended to cut through waves instead of riding over them. That was fine for a leisure boat, but was not sufficiently stable in rough seas for a passenger-carrying vessel.

The answer was to add a third hull, between the outer hulls, which normally sits clear of the water, but acts as a stabiliser during rough seas. Hercus and Clifford developed that concept over several years, until they were able to produce a 30-metre catamaran called 2001 in 1986, which attracted attention during exhibition trips at the America's Cup defence in Fremantle, Western Australia, in 1986.

International Catamarans subsequently built a second 30-metre ship capable of carrying 200 passengers for use at the Hamilton Island tourist resort in Queensland, followed by two 37-metre ships for owners in Queensland and New Zealand. But the business really began to take off with an order for two 74-metre catamarans, costing A$20m (£9m) each, for Sea Containers, which subsequently ordered three more, and may eventually take as many as 10.

Hoverspeed Great Britain, which is capable of carrying 450 passengers and 84 cars, is the biggest catamaran ever built and the first to be capable of carrying cars as well as passengers. But Hercus says he is already working on a 115-metre vessel which will carry 900 passengers, 300 cars and 10 coaches.

One spin-off of the radical hull design is that the structure provides greater stability than is required, even by new regulations introduced in the wake of the Herald of Free Enterprise disaster in 1987, when nearly 200 people lost their lives. The catamaran hull structure is almost impossible to sink or capsize.

The design also allows noise and vibration to be reduced by placing the engines in the side hulls, away from passengers, who will be accommodated on the platform above the central hull. Each side hull houses two Ruston medium-speed diesel engines producing 3600 kW at 750 rpm.

This is the first time that medium-speed diesels have been fitted in a high-speed craft, avoiding the need for gearboxes to connect the engines to four Riva Calzoni water jets which are used for propulsion. The use of water jets rather than propellers avoids the problems of cavitation, or pitting, which affects traditional propellers at high speeds, particularly above 40 knots.

The cavitation problem can be solved using propellers, but only as the cost of reducing efficiency to well below the levels achieved by water jets. One water jet on each side of the vessel is fitted with steering and reversing controls used for harbour manoeuvring. The two outer water jets are used to push the ship up to its top speed of 42 knots. Normal cruising speed is 35 knots.

After the Blue Riband challenge, Hoverspeed Great Britain will go into service on Sea Containers' fast-growing Portsmouth to Cherbourg route, halving the existing journey time to just over two hours and helping to re-establish the company's position in the UK/Continent ferry market, which it recently vacated by selling its Sealink ferry division to a Scandinavian competitor.

Other ferry companies are likely to be interested too: the catamarans can make twice as many crossings per day as conventional monohull ferries, cost less than half the price, and require only around a quarter of the crew.

But Hercus believes the ferry industry is just "scratching the surface" of the possible applications for the design. Smaller versions are already in use as naval patrol vessels and rescue boats, and there are hopes that the US cruise industry may be interested in developing a version for fast one-day cruising.

If all goes well, Hoverspeed Great Britain will arrive at Portsmouth on Friday, with the Blue Riband in the bag. It will be a great victory for Sherwood, and the record will show that the Riband once again flies from a British ship. But the biggest celebrations will be in Australia, where both builders and designers will be hoping they will prove to be the real winners.

Hungary on biotech road to the West

Building on traditional fermentation techniques, Hungary's pharmaceutical companies – which play an important role in the country's industrial sector – have promoted the expansion of thriving biotechnology departments.

The most advanced Hungarian biotech-based companies, having built a reputation for supplying low-cost but high-quality antibiotics in bulk to the West, are now looking to expand into hi-tech areas, such as genetic engineering.

Hungarian biotech ventures could ultimately rival their more commercially advanced western European competitors, but this depends largely on their ability to attract western venture capital, corporate funding and, more significantly, access to western distribution and marketing expertise.

More than 3,000 joint ventures have already been concluded between Hungarian and foreign companies. And since the re-opening of the Hungarian stock market the possibility of foreign investor funding has increased markedly.

Hungary's leading pharmaceutical companies, Gedeon Richter, Chinoin, Biogal, and Reanal, date back to the early post-war years. They have established biotechnology departments, supported by a long tradition of academic research.

The pharmaceutical industry produces goods worth more than $700m, representing 2 per cent of Hungary's gross domestic product. Hard currency exports of biotechnology and pharmaceutical products from Hungary are growing: Biochin, a wholly-owned subsidiary of Chinoin formed in early 1989, exports 70 per cent of its product; sales totalled $9m in its first year.

In 1988, Chinoin's Parkinson's disease and Alzheimer's drug Eldepryl, the first original central European medicine to be registered in the US, was projected to achieve annual profits of more than $5m. The Hungarian pharmaceutical industry as a whole recorded exports of $105m for the first half of 1988, representing a 24 per cent increase on the first half of 1987.

Gedeon Richter's exports in 1988 reached $172m, up 14 per cent on the previous year. Biogal achieved exports of $24.5m in 1987 and a joint venture with Ciba-Geigy, the Swiss pharmaceutical company, was estimated to bring in $3m.

The growth among Hungarian biotech and pharmaceutical companies reflects an expansion in facilities funded by World Bank loans of Forint 5.6bn (£51m) made in 1985, and a drive to maximise hard currency income in the present transitional phase of the Hungarian economy.

Hungary's biotech specialists are constantly on the move between centres of biotech excellence worldwide: Andras Vajda, deputy managing director of Vepex, has spent two years in the same role at Biotechnology International in Cambridge in the UK, of which it owns 50 per cent.

Hungarian biotech ventures could ultimately rival their more commercially advanced western competitors

Biochin's Director of Production, Laszlo Kegl, said: "We are trying to send all our young experts to the West for up to three years. At the moment, four of our senior research staff are abroad: one in the UK, one in Sweden, and two in the US." This ensures the maintenance of the quality of Hungarian biotech products in view of the need for validation on a bi-annual basis by the US Federal Drug Administration and the UK Committee on Safety of Medicines.

While the productive ability of Hungarian biotech is already evident, Hungarian biotech businesses rarely compete against each other. Different products are produced by different companies, with relatively little product overlap.

Research and development is already bearing fruit, both in the more traditional chemical and newer biotech and genetic engineering fields. For example, in early 1988, Biogal's Hevizos ointment passed clinical trials as an effective anti-Herpes prescriptive drug, and is now marketed and distributed in the US by International Diagnostics of Florid.

Vepex – managed by chemical engineer and economist Susanne Olah – has produced synthetic human albumin in a joint-venture with Skandigen of Sweden, a biotech achievement not yet matched in the UK.

Nevertheless, biotechnology in Hungary lacks two important ingredients: first, the industry has no western-style distribution and marketing network with direct contact through a doctor-targeted sales force, having depended for the last 40 years on Medimpex, the Hungarian Government's central trading agency for pharmaceuticals.

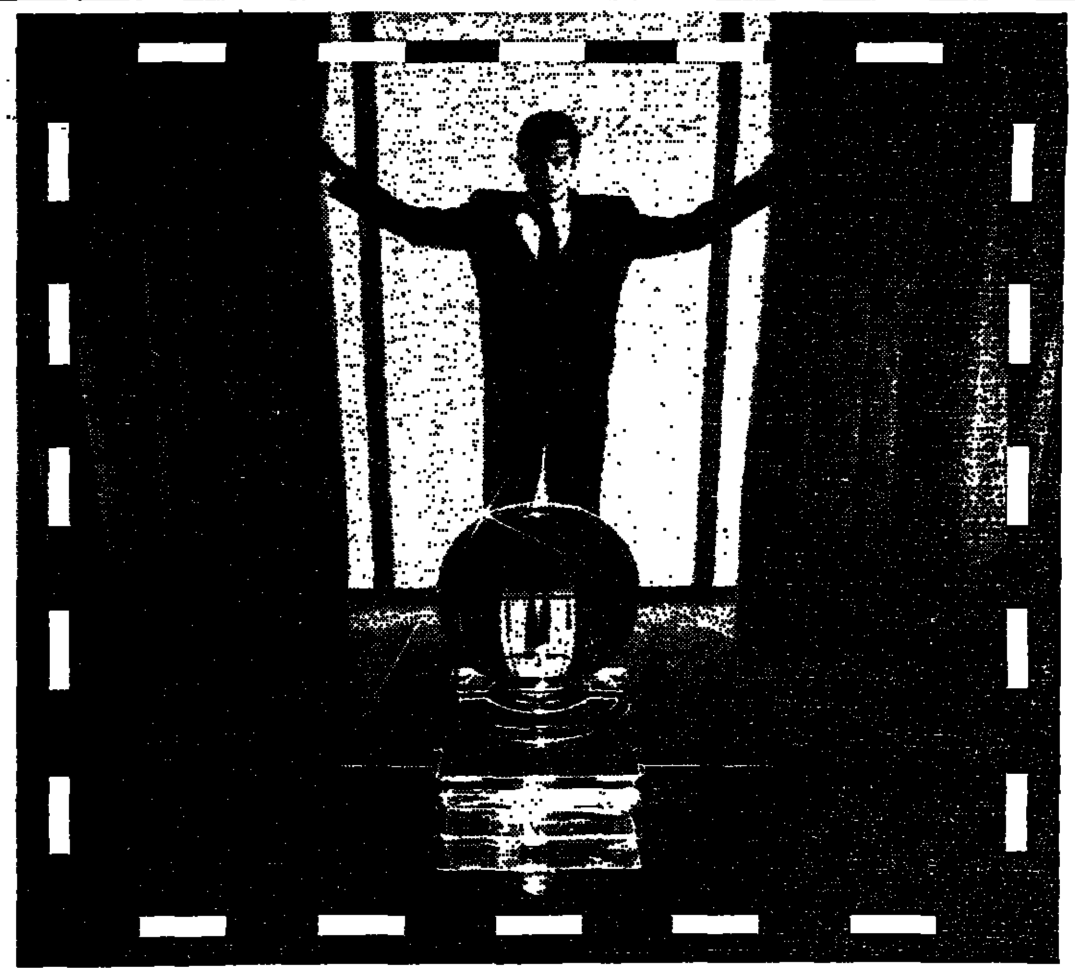
Although other companies have sales and marketing agreements for individual products in certain countries, Chinoin has been exceptional in establishing its own trading subsidiary, and in May 1990 appointed Forum Chemicals as its exclusive agent in the UK and the Irish Republic. The Hungarian pharmaceutical industry is now building up its international marketing expertise, and acknowledges its need for western help.

Second, Hungarian biotech lacks liquidity, due to a Hungarian tendency to allow inter-company debts to escalate, exacerbated by a record of slow payments by the Soviet Union – one of the industry's largest customers – although this seems to be improving.

These businesses above all need western joint-venture partners, a process simplified and encouraged by the present drive for privatisation. Most are already limited companies but they are entirely Government owned.

The opening of the Budapest stock market and a series of Government concessions have put Hungarian biotech in a better position for exploiting its developments than ever before. With early offerings on the stock market up to 20 times oversubscribed, Hungarian biotechnology, combined with western funding, marketing and technical expertise, could produce a valuable and profitable tonic.

Stephanie Jones
Erling Refsum



COMPANY NOTICES

COMMODITIES AND AGRICULTURE

Commodity failure central to African crisis

By Michael Holman, Africa Editor

AFRICAN policy makers must use commodity production and trade as "a motor for expansion," argues a United Nations report published yesterday.

The report, Africa's Commodity Problems: Towards a Solution, commissioned by Mr Perez de Cuellar, the United Nations Secretary-General, says: "The failure in the commodity sector has been central to the economic crisis facing Africa."

Mr Malcolm Fraser, the former Australian prime minister, chaired the group of experts who compiled the report.

The future performance of the sector will be critical to the success of Africa's economic recovery efforts, the report says. It points out that commodities account for between 85 and 95 per cent of the continent's total export earnings.

"Real growth opportunities exist in primary commodity production," the group believes. But the report stresses that if this is to be achieved, African governments must introduce further reforms, while industrialised countries should provide additional financial resources, technical assistance, allow more open markets for African exports of primary products and manufactured primary products, and increase efforts to negotiate fair commodity agreements.

The report notes that excluding fuel exports, commodities earned $18bn for Africa in international markets in 1988 – 26 per cent lower in real terms than in 1980, and 35 per cent lower than in 1970.

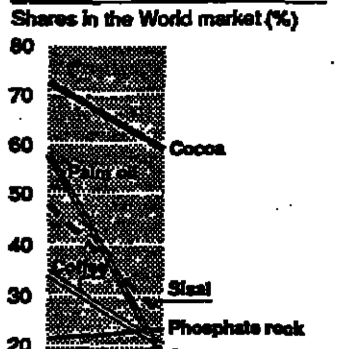
By 1988 Africa's market shares for cocoa, coffee, cotton and copper had fallen by between 20 and 40 per cent of the 1970 market share, the report calculates.

The report acknowledges that adverse external factors are part of the reason for this poor performance, but adds: "Other developing countries in other regions have had to face similar market problems and they have progressed while Africa has fallen behind."

Other reasons for the poor performance, says the report, include "ill-advised government policies, a serious lack of agricultural scientists, a poor knowledge of international markets, a lack of investment in transport and other infrastructure . . .and an economic policy framework which offers overseas investors few incentives."

Africa's exports

Shares in the World market (%)



Source: UNCTAD, Commodity Yearbook 1989. Note: Commodities which represented a share of more than 10% in 1970

Describing food prospects for Africa as "appalling," the report calculates that, assuming existing food production and population growth rates are maintained, "consumption could exceed production in the ten years to the year 2000 by about 50m tons." Africa can neither pay for, nor properly distribute, food needs on this scale, warns the report.

It also warns of "major environmental deterioration," noting that the desert is encroaching on agricultural land at a rate of 6m to 7m hectares (about twice the size of Belgium) each year. Of the almost 700m hectares of forest, between 3m and 4m are being cleared annually because of cultivation practices or fuel demand.

The report accepts that "significant reforms" have been introduced by African governments in recent years. But it goes on: "We believe that in many African countries the balance remains too far towards centralised decision processes . . .especially in the face of increasing competition in the world market place, inefficiencies that make undertaking business in Africa difficult can no longer be afforded."

The report recommends a commodity strategy with the objectives of increasing food security, diversification, increased processing, and greater intra-African trade.

At the international level, the report says that efforts to establish or re-establish international commodity agreements should be increased. Industrialised countries should move towards eliminating all quantitative limits on commodity imports.

It urges action in the current Uruguay Round of trade talks to enlarge the European Community quotas on Common Agricultural Policy items, and the elimination of tariff escalation clauses affecting African commodity exports.

The Multifibre Arrangement, which restricts textile imports, should be discontinued or phased out after the present arrangement expires next year, says the report.

Africa's Commodity Problems: Towards a Solution. UNCTAD Secretariat, Task Force on UN-PAAERD, United Nations, Geneva.

Oil from Soviet fields 'within next seven years'

By Karen Fossli, recently in Murmansk

PRODUCTION of oil and gas from Soviet offshore fields in the Barents and Kara seas could begin within the next seven years, according to Mr Jevguenij Reshetnjak, director general of the Murmansk-based Soviet Arctic Seas Oil and Gas Exploration Company.

The Schtokmanovskoye field in the Barents Sea is believed to be the world's largest gas field. The field was discovered in 1988 some 600 kilometres from the Kola peninsula and became known outside the Soviet Union last autumn.

A Soviet map of the two regions indicates other oil and gas discoveries nearby.

Mr Reshetnjak refused to estimate the reserves potential of the discoveries, as analysis on well and seismic data is still underway. More than 10 exploration wells have been drilled since the early 1980s.

"The data on oil is still preliminary but we are looking with optimism towards developing oil and gas in the Barents and Kara Seas to start production within five to seven years," Mr Reshetnjak said. It has been suggested that the Schtokmanovskoye field could be developed as a liquified natural gas (LNG) project.

Although Schtokmanovskoye is a great distance from the nearest coastline, an LNG project could help ease the economic strain on such a project, but a major gas contract would have to be secured.

Grain support prices increased in India

By K.K. Sharma in New Delhi

SHARP price rises in support prices of summer crops such as rice, millet, maize and other grains by the Indian government have made good its commitment to give farmers a better deal.

Prices at which government agencies will buy these crops when they are harvested in autumn have been raised by Rs30 ($1.74) a quintal. The new procurement prices will inevitably raise the cost of building up the country's food stocks and the price at which grain is sold through the public distribution system.

The announcement of higher prices has been followed by the release of the government's draft agriculture policy which is heavily tilted in favour of the farmer, and bears the stamp of the thinking of the powerful agriculture lobby in the government led by Mr Devi Lal, Deputy Prime Minister and Minister for Agriculture.

The higher grain procurement prices and the agriculture policy reflect the commitment of the government to give preferential treatment to the rural population and priority to agriculture in the country's development schemes.

This was reiterated yesterday by Mr V.P. Singh, India's Prime Minister, when he spoke at the opening session of the National Development Council, the country's highest economic-decision-making body, which met to consider the government's paper on the approach to the Eighth Five Year Plan for the period 1990-95. Mr Singh told the members of the council that rapid growth and diversification of agriculture was essential to improve the rural areas and that agricultural growth and modernisation would increase demand for industrial goods. The agriculture policy calls for a "major restructuring of the agricultural front". The policy in favour of farmers defends the present system of subsidising agricultural inputs and says that price incentives to farmers are essential for efficiency in agriculture. Despite the pressure to reduce government expenditure and the heavy burden of subsidies that has led to large budget deficits, the government has made it clear that farmers will continue to be subsidised and that they will get higher prices for their produce. The policy has also stipulated the revision of the method of computing the cost of production in farming to include the farmers' labour. Since this will be the basis for fixing grain procurement prices, a rise in food prices and a transfer of resources from urban to rural areas are inevitable. The draft policy has set a growth rate of 6 per cent for agricultural production by doubling the Seventh Five Year Plan (1985-90) outlay on agriculture from 21 per cent to 40 per cent in subsequent plans.

Sweet position at the top of the trading ladder

George Graham looks at the expansion plans of France's leading commodity dealer

Sucres et Denrées, the leading French commodity trader, has always had a reputation for pulling off the big deal. It was Maurice Varsano, the group's founder, who built Sucden's dominant position in the world sugar market on a deal with Fidel Castro, just after the Cuban revolution.

In 1988, it was the turn of his son Serge, who is now chairman of the group. When Cuba's sugar cane crop didn't come up to expectations, he signed a swap deal to supply 1.8m tonnes of sugar on Cuba's behalf to the Soviet Union to fill the normal Cuban quota.

Six months later, Sucden shook the cocoa market with a long term deal to buy 400,000 tonnes of from the Cote d'Ivoire, the world's largest producer, which had been boycotting the market in an effort to force prices up.

The deal triggered a battle that lasted a year with rival traders Philipp Brothers, ending up with each side pre-financing 280,000 tonnes to tie up the bulk of the Ivorian crop.

Late last year, Marimpex, Sucden's newly-acquired West German oil trading subsidiary, signed an $800m deal to buy 10 per cent of Iran's oil output.

But although Sucden's culture remains firmly rooted in trading – it is world leader in the sugar trade and a leading player in cocoa and rice, besides its new oil interests – the group has begun to develop its industrial activities, aiming for diversification and downstream integration.

Industrial businesses, including Barry, the world's leading cocoa processor, and Vital Sogéviandes, France's number two meat processor, accounted for FFr6.65bn (£692.8m) out of Sucden's total 1989 sales, up 64 per cent from the previous year to FFr53.9bn.

Helped by a FFr103m capital gain on the sale of its 15 per cent stake in Davigel, a frozen foods company, to Nestlé, Sucden also more than tripled its net profits last year to FFr256.9m.

The biggest business segment is Sucden Kerry, with FFr28.3bn of turnover last year, representing 9m tonnes of sugar and 8.4m tonnes of oil. Sucden's partner is the Kuok group of Hong Kong, which owns 30 per cent of Sucden Kerry. The other main branch is Merkuria Sucden, 99.99 per cent controlled, with FFr15.9bn of turnover last year trading other agricultural and energy commodities.

This year, the contribution of the industrial side should increase, as Sucden has acquired a controlling stake in Iansa, Chile's monopoly sugar producer, with sales of $270m last year, which is expected to be a base for the development of other food products in Chile, such as fruit juices or fish, as well as a model for similar stakes in other Latin American countries. Sucden has taken a trial 5 per cent stake in a Mexican sugar refiner, and has ambitions to take part in the eventual privatisation of Mexico's sugar industry.

Mr Varsano says: "The prices paid for sugar refiners in Europe are too high for us, and in addition, if I had bought Tirlemont, say, I don't know how our other clients would have taken it. Iansa bothers no-one, it is neither an importer nor an exporter."

Sucden has already arranged for French experts to visit Chile to help with a disease afflicting the sugar beet fields in the north of the country. In Mexico, the sugar industry's problems are more political, because for social reasons the government is maintaining high cane prices to help the farmer, and low sugar prices to help the consumer.

The company believes that it is well placed by its contacts in these countries to take advantage of opportunities, but also that its trading skills can bring a bonus to many agricultural businesses of this kind.

"Whenever the value added is low in comparison to the risks of price fluctuation, the trader's input can be very interesting," comments Mr Jacques Bachelier, Sucden's managing director.

Sucden still remains firmly committed to commodity trading, and still believes in big deals."I believe in long term contracts with producer countries, with a guaranteed minimum price. That way they don't lose money, and they can have a longer term industrial strategy," says Mr Varsano.

Sucden recently arranged a 100,000-tonnes-a-year sugar deal between French sugar beet producers and refiners at a fixed price of FFr2,500 a tonne for the next three years. It has also arranged a similar sugar deal for the Philippines.

Mr Varsano says it may be more difficult to make this kind of arrangement with cocoa producer countries, because they have been unsettled by the market's fluctuations over the last three years.

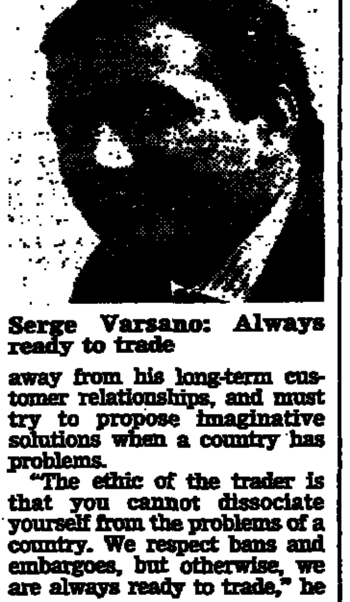
Last year's struggle between Sucden and Phibro over the Cote d'Ivoire's cocoa did not help matters.

Mr Varsano explains: "At the beginning, Phibro took it very badly that a small French trader should take 400,000 tonnes. They thought we were going to eliminate them from the cocoa market, which was an error, because it was a one-off deal."

Now, they are owed $200m by the Cote d'Ivoire following the price fall after the prefinancing for their 280,000 tonnes; we took the same amount, but are owed nothing, he said. "They have 350,000 tonnes of stocks on their hands; we have no stocks, we're clean," he says.

"The big deals are not very profitable. In gross they can be important, but the percentage is small – our clients can calculate too – and the risks are big," Mr Varsano adds.

Nevertheless, he believes that the trader cannot turn away from his long-term customer relationships, and must try to propose imaginative solutions when a country has problems.



Serge Varsano: Always ready to trade

"The ethic of the trader is that you cannot dissociate yourself from the problems of a country. We respect bans and embargoes, but otherwise, we are always ready to trade," he says.

Mr Varsano is now studying whether to open up the capital of the group holding company, Compagnie Financière Sucres et Denrées, though he rules out any possibility of a stock exchange listing. Says Mr Varsano: "You cannot reconcile the disclosure requirements of a stock exchange with the speed of information and the need for secrecy of our businesses."

"But finding friendly partners is both envisageable and desirable," he concludes.

Metal demand rise expected

JAPAN'S demand for copper, zinc and lead is expected to rise to a record level during the fiscal year ending March 1991, the Ministry of International Trade and Industry (MITI) said, Reuter reports from Tokyo.

Demand for copper is projected to climb to about 1.56m tonnes during the fiscal year 1990, up from a record 1.57m a year earlier, a MITI official said. Strong growth in the cable and brass industries is seen boosting demand, the report said.

Demand for zinc in the fiscal year 1990 will rise to a record 837,000 tonnes, up from 797,800 a year earlier, on the back of strong expansion in the galvanised steel sector.

The previous record for zinc demand was 798,000 tonnes in 1987. The MITI report predicted that strong demand for zinc would lead to a shortage of the metal in Japan this fiscal year, and estimated zinc supplies at 815,000 tonnes.

Record tea figure expected

By K.K. Sharma in New Delhi

INDIA expects to produce 730m kg of tea in 1990-91 and export about 230m kg, worth Rs10bn, according to Mr Arun Nehru, Minister of Commerce.

This compares with 202.81m kg, worth Rs8.09bn in 1989-90 when production is expected to have been substantially less. The highest production in the country was in 1988-89 when 702m kg was reached.

Mr Nehru suggested closer monitoring of tea production and marketing in the country, and has asked his junior minister to visit tea-growing areas.

India's exportable surplus is not growing as fast as the government hopes because domestic demand is increasing by 10 to 15 per cent a year, and Mr Nehru has asked for a plan to increase production.

Plans made so far include bringing giving additional areas over to tea production in non-tea growing states, and the starting of tea plantations in denuded forest land.

Cuban sugar production up

CUBA surprised international analysts yesterday by announcing a higher than expected 1989-1990 sugar production figure of just over 8m tonnes after a harvest marked by bad weather and technical problems, Reuter reports from Havana.

Granma, the official Communist Party newspaper, described the 8.04m tonne crop as a "real labour achievement by our workers." Sugar is the traditional mainstay of the Cuban economy and the island is the world's biggest exporter.

The 1989-1990 harvest figure exceeded a target set earlier in the season of 7.7m tonnes but was below the 8.1m tonne crop achieved in 1988-1989, the fourth biggest in the history of the country.

Since harvesting began last November, Cuban officials had painted a consistently gloomy picture, reporting frequent disruptions caused by unseasonal heavy rains and mechanical breakdowns at the country's more than 150 sugar mills. The harvest should have ended in April but continued into June.

WORLD COMMODITIES PRICES

MARKET REPORT

OIL prices fell in London and New York as Opec production continued at a high level. "Markets remain under pressure because there is no confirmation that key Opec producers are cutting output to reduce the glut," said one New York trader. Dr Subroto, Opec's secretary general, said the organisation had cut production by only about 400,000 barrels per day, rather than 1.445m pledged in the agreement reached on May 3. Copper prices firmed on the LME in the afternoon and were climbing by midsession in New York on talk of a strike at Ok Tedi in Papua New Guinea. "Everyone's talking Ok Tedi, but there's no confirmation," said one New York analyst. "We touched off a lot of fund buying when we pushed above 112.50 and then more when we breached 115 (cents a lb for July)." New York orange juice futures were limit down by midsession following the sharp decline on Friday, when news emerged that three Brazilian processors had offered a limited amount at a reduced price, for a limited time, to some large customers. However, analysts were quick to stress that the item should not have been construed as an outright price cut by Brazilian processors.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$13.80-3.90w	-0.20
Brent Blend	$16.00-6.05w	-0.20
W.T.I. (1 pm est)	$17.26-7.27w	-.545
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$221-223	-5
Gas Oil	$146-148	-½
Heavy Fuel Oil	$81-83	
Naphtha	$136-138	-3½
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$349.25	+1.75
Silver (per troy oz)♣	485c	+3
Platinum (per troy oz)	$476.25	+1.40
Palladium (per troy oz)	$114.75	-0.25
Aluminium (free market)	$1575	-5
Copper (US Producer)	118¼c	
Lead (US Producer)	46c	
Nickel (free market)	400c	+5
Tin (Kuala Lumpur market)	16.35r	-0.03
Tin (New York)	285c	+1
Zinc (US Prime Western)	87½c	
Cattle (live weight)†	108.63p	-1.39
Sheep (dead weight)†	158.65p	-6.12
Pigs (live weight)†	103.39p	+4.77
London daily sugar (raw)	$312.10t	
London daily sugar (white)	$381t	
Tate and Lyle export price	$295	+4
Barley (English feed)	£114.5w	
Maize (US No. 3 yellow)	£145	
Wheat (US Dark Northern)	£124.5	
Rubber (Jul)♥	64.25p	
Rubber (Aug)♥	64.75p	
Rubber (KL RSS No 1 Jul)	230m	
Coconut oil (Philippines)§	$340z	
Palm Oil (Malaysian)§	$272.5q	+5.0
Copra (Philippines)§	$220.0v	+2.5
Soyabeans (US)	£156	-1
Cotton "A" Index	89.75c	
Woolsops (64s Super)	495p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jul. t-Jul/Aug. u-Oct/Dec v-Jun/Jul. w-Aug z-Aug/Sep y-Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA — London FOX £/tonne

	Close	Previous	High/Low
Jul	782	788	791 780
Sep	804	808	817 800
Dec	828	827	840 826
Mar	849	848	858 845
May	870	870	878 868
Jul	889	890	900 888
Sep	907	910	910 905

Turnover: 3691 (10546) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 15 1003.02 (967.06) 10 day average for Jun 18 1013.28 (1021.15)

COFFEE — London FOX £/tonne

	Close	Previous	High/Low
Jul	597	600	607 595
Sep	616	618	615 607
Nov	634	637	635 635
Jan	650	652	663 645
Mar	665	673	670 665
May	681	689	693 680
Jul	700	700	684

Turnover: 2952 (5761) lots of 5 tonnes
ICO indicator prices (US cents per pound) for June 15: Comp. daily 69.52 (69.57); 15 day average 72.23 (72.61)

SUGAR — London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	281.00	284.40	283.00 278.00
Oct	277.20	278.40	280.00 271.00
Dec	281.20	284.40	282.00 277.00
Mar	283.20	286.00	285.00 280.00
May	283.80	285.00	284.20 281.60
Aug	283.60	285.00	284.20 282.40
White	**Close**	**Previous**	**High/Low**
Aug	381.5	388.0	388.5 376.2
Oct	357.5	359.0	361.0 354.5
Dec	350.5	351.0	352.5 347.5
Mar	346.5	346.0	344.0 342.0
May	343.0	344.5	343.0
Aug	342.5	342.5	341.5
Oct	331.0	331.0	331.0

Turnover: Raw 2414 (4626) lots of 50 tonnes.
White 1576 (1820)
Paris- White (FFr per tonne): Aug 2149, Oct 2017 Dec 1980, Mar 1995, May 1980

CRUDE OIL — IPE $/barrel

	Close	Previous	High/Low
Aug	15.67	16.12	16.20 15.67
Sep	15.27	15.60	15.62 15.27
Oct	16.65	17.10	16.65
Nov	17.16	17.38	17.19 17.16
Dec	16.27		
IPE Index	16.27	16.10	

Turnover: 7289 (6544)

GAS OIL — IPE $/tonne

	Close	Previous	High/Low
Jul	142.50	145.25	144.75 142.50
Aug	143.75	146.75	146.00 143.50
Sep	147.00	149.25	148.75 147.00
Oct	149.75	153.00	151.00 149.75
Nov	151.75	155.25	153.50 151.75
Dec	153.75	157.00	155.75 153.75
Jan	154.00	158.50	155.00 154.00

Turnover 5778 (6118) lots of 100 tonnes

POTATOES — BFE £/tonne

	Close	Previous	High/Low
Nov	92.5	100.0	97.0 97.0
Feb	120.0		120.0
Apr	128.5	144.0	133.0 125.5
May	140.0	155.6	141.0 137.5

Turnover 510 (934) lots of 40 tonnes.

SOYABEAN MEAL — BFE £/tonne

	Close	Previous	High/Low
Oct	115.50	117.50	116.50 115.50

Turnover 40 (60) lots of 20 tonnes.

FREIGHT FUTURES — BFE $10/index point

	Close	Previous	High/Low
Jun	1135	1135	1135 1120
Jul	1009	1015	1009 991
Oct	1080	1101	1095 1073
Jan	1107	1123	1110 1092
Apr	1110	1122	1100
BFI	1197	1219	

Turnover 468 (322)

GRAINS — BFE £/tonne

Wheat	Close	Previous	High/Low
Jul	119.90	119.85	120.00 119.75
Sep	113.20		
Nov	115.50	115.50	117.40 117.25
Jan	120.75		120.75
Mar	124.50	117.40	
May	126.10	121.00	127.25
Jun	128.45	127.25	
Barley	**Close**	**Previous**	**High/Low**
Sep	111.80	111.85	
Nov	115.95	115.00	
Jan	119.25	119.30	
Mar	122.10		122.10

Turnover: Wheat 110 (138), Barley 3 (101).
Turnover lots of 100 tonnes.

TEA

There were 22,873 packages on offer this week, including 5,200 offshore reports the Tea Brokers' Association. There was improved general demand. Bright liquoring Africans and the better mediums often gained 5p to 10p per kilo and sometimes more. The plainest descriptions from each origin again came to a selective market. Ceylons met good support at improved levels. Offshore teas proved irregular with prices barely steady where sold. Quotations: quality 200p (220p), medium 118p (112p), low medium 77p (75p).

PIGS — BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	124.0	140.3	141.0
Aug	124.0	123.0	
Oct	125.0	125.5	

Turnover 10 (61) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 19,715 lots
Cash	1576-8	1581-4	1574/1571	1570-1		
3 months	1595-6	1596-7	1598/1590	1590-1	1596-7	45,325 lots
Copper, Grade A (£ per tonne)						Total daily turnover 27,546 lots
Cash	1522-4	1516-20	1520/1515	1512-3		
3 months	1482-3	1471-2	1489/1467	1470-1	1476-8	82,372 lots
Lead (£ per tonne)						Total daily turnover 2,063 lots
Cash	460.5-1.0	483-3.5	481/486	486-6.5		
3 months	486-9	486-8.75	495/481	482.5-3.0	487-8	10,054 lots
Nickel ($ per tonne)						Total daily turnover 2,002 lots
Cash	8650-700	8650-75	8650/8625	8625-50		
3 months	8600-25	8580-600	8650/8550	8620-30	8600-25	8,424 lots
Tin ($ per tonne)						Total daily turnover 2,132 lots
Cash	6165-95	6165-85	6180/6145	6130-5		
3 months	6305-10	6270-5	6350/6250	6280-70	6330-40	6,308 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 5,671 lots
Cash	1704-5	1678-82	1705/1697	1698-700		
3 months	1645-6	1635-8	1644/1633	1637-8	1637-8	18,989 lots

LME Closing £/$ rate:
SPOT: 1.7100 3 months: 1.6831 6 months: 1.6577 9 months: 1.6368

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	349-349½	204-204½
Opening	348¾-349¼	203½-204
Morning fix	349.00	204.189
Afternoon fix	349.25	204.268
Day's high	349-350	
Day's low	348¾-349¼	
Coins	**$ price**	**£ equivalent**
Maple leaf	356-361	208½-211½
Britannia	356-361	208½-211½
US Eagle	356-361	208½-211½
Angel	356-361	208½-211½
Krugerrand	348-351	203½-205½
New Sov.	82-84	48-49½
Old Sov.	82-84	48-49½
Noble Plat	482.45-490.10	282.45-286.85
Silver fix	**p/fine oz**	**US cts equiv**
Spot	283.20	483.50
3 months	288.75	489.90
6 months	294.45	[illegible]
12 months	[illegible]	[illegible]

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sep	July	Sep
1600	91	109	1	18
1650	18	47	36	51
1700	1	15	110	117
Copper (Grade A)	**Calls**		**Puts**	
2450	135	101	5	58
2500	55	64	22	107
2550	13	26	78	177
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
550	[illegible]	[illegible]	[illegible]	[illegible]
600	[illegible]	[illegible]	[illegible]	[illegible]
650	[illegible]	[illegible]	[illegible]	[illegible]
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
750	[illegible]	[illegible]	[illegible]	[illegible]
800	[illegible]	[illegible]	[illegible]	[illegible]
850	[illegible]	[illegible]	[illegible]	[illegible]
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
1550	[illegible]	[illegible]	[illegible]	[illegible]
1600	[illegible]	[illegible]	[illegible]	[illegible]
1650	[illegible]	[illegible]	[illegible]	[illegible]

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
Jun	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
Jun	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Jun	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)

Jun 18	Jun 15	mnth ago	yr ago
[illegible]	[illegible]	[illegible]	[illegible]

DOW JONES (Base: Dec. 31 1974 = 100)

	Jun 15	Jun 14	mnth ago	yr ago
Spot	[illegible]	[illegible]	[illegible]	[illegible]
Futures	[illegible]	[illegible]	[illegible]	[illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Jun	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]

LIVE HOGS 30,000 lb; cents/lb

	Close	Previous	High/Low
Jun	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]

LONDON STOCK EXCHANGE

Inflation doubts upset share prices

SECOND thoughts on prospects for early British entry into the exchange rate mechanism of the EMS, prompted by the disclosure of unexpected increases in UK unit wage costs and Public Sector Borrowing Requirement, brought a setback in UK equities yesterday. The latest economic data, which followed last Friday's news that the annual rate of domestic inflation had risen to 9.7 per cent, was also reflected in a dip in the pound and in lower prices for UK Government bonds.

The 8.1 per cent gain in unit wage costs for the three months to April over the comparable period a year earlier unsettled an equity sector already troubled by warnings in the UK press on the possible implications for British industry of entry to the EMS currency mechanism while domestic inflation remained high. The market's unhappiness was compounded by the increase in Public Sector Borrowing Requirement to £1.7bn in May, more than three times forecasts from equity analysts, and casting a cloud over the outlook for the Government's financing policies.

Equities opened lower, in spite of Wall Street's new high on Friday, and the market was quickly hit by a batch of downgradings of leading stocks by brokerage analysts. Share prices were already sliding when the day's list of economic data reached the trading screens at mid-morning. From then on, equities gave further ground in modest trading, reaching the day's low of FT-SE 2,367.4 as Wall Street opened lower.

Despite an early fall of nearly 28 Dow points in New York, London steadied at the end of the trading session. The final reading showed the FT-SE Index at 2,370.5, down 21.8.

Seaq volume remained fairly steady at 403.4m shares, against Friday's total of 400.2m. Some of the more speculative buyers of the past month were shaken out, but the investment institutions made little move to sell stock.

An indication of underlying support came from the successful placing with UK institutions of 60m shares in Bryant Group, the housebuilder, in what was described in the market as a "sensational piece of broking." News of a possible bid brought a sharp rise in Speyhawk, the property group, but the shares were thinly-traded.

A £21.7m rights issue from Sketchley had been foreshadowed in the weekend press and the shares shed 10 per cent.

There were some weak sectors, notably the UK clearing banks, where Midland suffered further profits downgradings by a leading UK securities analyst. The same analyst had downgraded National Westminster Bank at the end of last week. UK bank shares were additionally unsettled by doubts over involvement in property deals in the US.

Account Dealing Dates		
*First Dealings:		
Jun 11	Jun 25	Jul 9
Option Declarations:		
Jun 21	Jul 5	Jul 19
Last Dealings:		
Jun 22	Jul 6	Jul 20
Account Day:		
Jul 2	Jul 16	Jul 30

*New-time dealings may take place from 8.30 am two business days earlier.

FINANCIAL TIMES STOCK INDICES

	June 18	June 15	June 14	June 13	June 12	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	79.47	79.78	79.95	79.03	78.80	84.76	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	88.48	88.26	88.20	87.67	87.61	95.72	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1911.9	1925.9	1928.6	1933.2	1901.0	1780.7	1968.3 (3/1)	1653.6 (30/4)	2008.6 (5/9/89)	49.4 (28/6/40)
Gold Mines	170.7	167.9	168.2	179.9	184.5	183.8	378.5 (6/2)	167.9 (15/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2370.5	2392.3	2403.0	2405.4	2370.7	2154.7	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	4.83	4.80	4.78	4.78	4.85	4.49				
Earning Yld %(full)	10.66	10.58	10.55	10.54	10.71	10.59				
P/E Ratio(Net)(☆)	11.37	11.45	11.48	11.50	11.32	11.39				
SEAQ Bargns 4.45pm	24,314	28,233	33,829	30,058	25,394	22,461				
Equity Turnover(£m)†	-	790.44	1272.36	1214.52	801.90	1129.74				
Equity Bargains†	-	27,095	33,480	30,461	24,741	25,437				
Shares Traded (ml)†	-	351.5	470.1	510.5	360.0	360.2				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 11.24

Ordinary Share Index, Hourly changes — Day's High 1926.5 — Day's Low 1908.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1924.2	1925.3	1923.6	1919.2	1915.5	1914.9	1914.6	1912.0	1910.6

FT-SE, Hourly changes — Day's High 2394.5 — Day's Low 2367.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2389.9	2389.8	2387.0	2381.4	2377.3	2377.2	2376.7	2373.6	2369.7

GILT EDGED ACTIVITY

Indices*	June 15	June 14
Gilt Edged Bargains	152.8	121.3
5—Day average	108.2	94.0

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

Midland under pressure

THE BANKS team at County NatWest, which lowered its target for NatWest last Friday and hinted at big downgrades in the other banks, moved quickly yesterday to lop its current year expectation for Midland Bank. County's forecast was already among the lowest estimates and this upset the Midland share price, which closed 3 off at 297p.

Mr John Aitken, County's banks analyst, reduced his pre-tax profits estimate for the year from £550m to £385m, highlighting the bank's "dreadful" position on its Treasury book, which could account for up to £120m this year, and much higher bad debts in the UK, which Mr Aitken said could well reach £200m. The County analyst also spoke of a probable £30m provision for Midland's exposure to Britain & Commonwealth, and listed additional problems of no volume growth in Midland's traditional banking areas.

Mr Aitken said "it is difficult to convey just how bad Midland's figures will be." He added, however, that the bank was "an optimum target for a bidder; the bank can be bought and the right buyer could easily double the bank's profits."

Bryant stake sold

There was hectic activity in Bryant shares early in the session on news that ECC, formerly English China Clays, had sold its near 29 per cent stake in the housebuilder.

ECC acquired the shares during an unsuccessful and hard fought takeover bid for Bryant in 1986.

The stake, comprising around 60m shares, was placed in the market at 84p apiece by Charterhouse Tilney, the stockbroking arm of Royal Bank of Scotland. The broker was thought to have made a bid for the share stake, in a move known in the market as a "bought deal."

Mr Chris Cannon at Charterhouse Tilney, said the shares "were oversubscribed and placed with twenty of their UK institutional clients." The holding was said to have been up for sale for at least a year.

Bryant shares came under heavy pressure as details of the deal became known, dropping to a low of 85p before steadying to end a net 5 off at 89p.

ECC shares, on the other hand, gave a positive response to the news, advancing 12 to 402p on turnover of 1m. Confirming the sale of the shares, which raised £49.9m net of expenses, ECC said the proceeds would be used to help pay for its proposed acquisition of Georgia Kaolin.

BET, the industrial and services group, regained an early loss after revealing annual profits at the higher end of market expectations, although the figure of £322.3m (against £270.6m) was slightly flattered by property disposals. After dipping to 242p, the shares rallied to end unchanged at 252p.

Another piece of good news for the market was the group's shift in policy. BET stressed that this year the emphasis would be on organic rather than acquired growth now that its reorganisation programme was virtually completed.

Analysts agreed that a period of consolidation was necessary after the acquisitions of the past few years.

Mr David Ireland of Hoare Govett turned positive after the post-results' meeting, raising his estimate of current year profits to £360m and changing his stance from hold to buy. The stock will attract income buyers because of the good yield on the final dividend payment, he said.

The oil and gas market remained highly nervous as crude oil prices came under yet more downward pressure – Brent for August delivery dipped below the $16 a barrel level – after reports that Mr Sadek Boussena, the Opec president, had written to all Opec members warning that they "stood on the brink of a rerun of the 1986 price collapse," which took oil prices below the $10 a barrel mark.

British Gas held up well, closing only 1¼ easier at 218p, after an investment seminar given by the company at Hoare Govett, the company's stockbroker. The Hoare energy team said Gas had delivered a "positive statement on its exploration and production business and the potential for the global gas industry. Hoare is hosting a presentation for Scottish institutions on Thursday.

Worries about NatWest's exposure to the Donald Trump empire in the US brought further pressure on the bank's shares. They closed 9 off at 334p on keen turnover of 3.6m, with one leading analyst taking the view that the banks now fear "major bankruptcies in the UK and the US".

A package of bad news from Sketchley knocked 20 off the shares to 183p. The company reported a 12-month loss of £2m, against a profit of £16.1m the previous year. It is raising £20.6m through a three-for-five rights issue at 100p. There was no final dividend.

The chairman, who will resign at the annual meeting, stated that 1989-90 had "been a nightmare year for the company." He said that the group's results had been disastrous and that its credibility has been severely shaken.

BAA was the best performing of FT-SE 100 stocks after the company posted year-end profits 29 per cent higher at £256m. Traders were particularly pleased with the appointment as chief executive of Sir John Egan, who retires as chairman of Jaguar on June 30. BAA firmed 7 to 223p.

Computer software group Logica retreated 14 to 188p amid hints that a profits downgrade could be on the cards. Specialists said, however, that the decline represented an attempt by dealers to find a trading level for the shares.

Television contractors were hit by news that a moratorium on takeover bids had been made a near certainty by changes yesterday to the Broadcasting Bill.

The Bill, scheduled to complete its passage through Parliament by the end of October, was amended to allow the moratorium to be imposed by the ITC, the successor to the Independent Broadcasting Authority. The ban on takeovers is designed to let new holders of franchises establish themselves. The IBA has also said that it would prevent takeovers until the Bill is passed, and again once the tendering process for the new franchises has begun, around March 1991.

The consequence is a six-month window of opportunity for aspiring bidders between October and March. The next time bids will become a possibility is 1994, a year after the new franchisees have started broadcasting.

Analysts were divided over whether the change would inhibit bids or push predators into action. Most TV stocks slipped in light trading. Anglia lost 5 to 255p and HTV softened 2 to 97p. Central, in which Carlton Communications has a 20 per cent stake, eased 3 to 688p. Carlton lost 7 at 538p. Thorn EMI and BET have 27 per cent apiece of Thames, which closed 7 lower at 495p. Thorn and BET put their stakes up for sale in April.

Press reports that Pickwick, the video, records and cassettes distributor, had secured the video distribution of the successful US film Teenage Mutant Ninja Turtles helped the shares climb 8 to 246p.

Confirmation that preliminary talks were in progress which may or may not lead to a bid lifted troubled property concern Speyhawk to 201p, before closing 56 higher on the day at 195p.

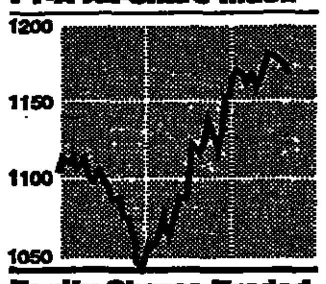
Evans of Leeds also prospered, rising 13 to 263p on hopes of good preliminary figures next month, but the overall trend in the sector was lower.

Davy Corporation turned back awaiting tomorrow's preliminary statement to end 10 down at 261p. Dealers blamed the fall on profit-taking after the recent strength.

Alan Cooper, the office furniture manufacturer, weakened on the board's caution over the outlook for the full year and news that a cost-cutting programme had been implemented. The shares fell 15 to a low for the year of 150p.

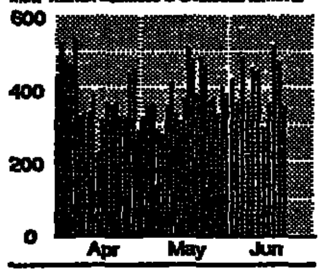
■ Other Market statistics, including the FT-Actuaries share index, Page 27

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (88). BRITISH FUNDS (7) AMERICANS (1) BUILDINGS (3) CHEMICALS (3) STORES (4) ELECTRICALS (10) ENGINEERING (2) FOODS (1) INDUSTRIALS (12) Alfa-Laval, Barry Wehmiller, Expamet Intl., J.S. Pathology, MITIE, Portals, RCO, Reliance Sec., Relyon, Robertson, Sanders & Sidney, Security Archives. INSURANCE (3) NEWSPAPERS (1) PROPERTY (1) TRANSPORT (1) TRUSTS (10) OVERSEAS TRADERS (1).
NEW LOWS (88). AMERICANS (2) CANADIANS (1) BANKS (1) BUILDINGS (5) CHEMICALS (2) STORES (1) ELECTRICALS (2) ENGINEERING (1) FOODS (2) INDUSTRIALS (12) Cahill May Roberts, Chestergate, Comac, Cooper (Alan), Cowan de Groot, Creston Hldgs., Handley-Walker, Norton, Sketchley, Storngard, Swallowfield, West Inds.. LEISURE (3) MOTORS (1) PAPERS (1) PROPERTY (6) TRANSPORT (2) TRUSTS (3) OILS (1) PLANTATIONS (1) MINES (6) THIRD MARKET (2).

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ADT	289	193	-2	Courtaulds	408	351	+3	MEPC	478	505	-3	Slough Ests	82	297	-2
ASDA Group	3,100	115	-1	Dalgety	148	381	+1	Manpower	225	85½	+½	Smith (W.H.) A	168	380	-2
Abbey National	2,300	202		Dixons	8,500	148		Marks & Spencer	1,200	232	-2½	Smith & Nephew	779	117	-½
Allied-Lyons	914	502	-4	ECC Group	1,000	400	+10	Maxwell Comms.	1,100	204	+1	SmKl Beecham	576	539	-6
Amstrad	208	67		Enterprise Oil	387	646	-12	Mecca Leisure	468	87	-2	SmKl Beecham Units	18	2455	-38
Anglian Water	382	168½		FKI	342	73		Midland Bank	1,800	297	-3	Smiths Inds.	6	356	-1
Argos	1,700	226		Ferranti	136	39		NatWest Bank	3,600	334	-9	South West Water	277	166½	-2½
Argyll Group	484	242	+1	Fisons	1,800	364	-1	Next	4,800	60	-1	Southern Water	380	141	+1
Ass. Brit. Foods	122	411	-7	Gen. Accident	118	1100	-16	North West Water	645	157	-2½	Standard Chartd.	255	495	
BAA	2,300	223	+7	General Elect.	2,700	217	-1	Northern Foods	157	315	-3	Storehouse	1,400	126	
[illegible]															

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

APPOINTMENTS

New chief for Ciba-Geigy UK

■ *Mr John S. Fraser has been* appointed chairman and chief executive of the CIBA-GEIGY UK GROUP from November 1. He will also become chairman of Ciba-Geigy (Financial Services), Ciba-Geigy (Insurance Services), the Ciba-Geigy Fellowship Trust and Ciba-Geigy Ireland. He retains his chairmanship of Ciba-Geigy Chemicals and The Clayton *Anilene Company. Mr Fraser* succeeds Mr Allan A.S. Rae who is retiring in November.

■ AIRPLUS, the airline-backed business travel service card, has appointed Mr Ugo Zaccheo *as general manager marketing* and sales. He was a senior executive with Alitalia.

■ Mr Nicholas Menges has been appointed a director of STANDARD CHARTERED TRUST GROUP HOLDINGS, and Standard Chartered *International Trustee, the* principal companies providing global fiduciary services for the Standard Chartered Group. He was a director of Lazard Brothers & Co (Jersey), and will be based in London to develop regional business and marketing strategy in the UK and Europe.

■ Mr Nigel Mackenzie has joined ROWLINSON DEVELOPMENTS as a director. He was formerly an associate in the development department of De Groot Collis. Mr MacKenzie will be the director of development with responsibility for developments *in the South East and South* West.

■ THE RETAIL GROUP, a subsidiary of the de Morgan Group, has appointed Mr Mike Evans as deputy managing director. He joins from The Leading Edge, where he was *managing director.*

■ Ms Amanda Poole and Mr Jeffrey von der Schulenberg have joined the board of AXIOM ADVISORS. Ms Poole was previously a director of Management Horizons (Europe). Mr Schulenberg was previously employed by Russell Reynolds.

■ N G BAILEY & CO, the UK private electrical engineering contractor, has appointed four associate directors. Mr Les Cliffe, site manager of the major projects division, Mr Colin Emsley, senior quantity surveyor at the management *training centre, Mr Keith* Nielson, site manager of the major projects division, and Mr Alan Walker, craft training manager, have all joined the board.

■ WOOLWICH (EUROPE) – a Woolwich Building Society *subsidiary – has appointed* Mr Robert J. Goulston as managing director of its Italian company Woolwich Spa, based in Milan.

■ CONDER PROJECTS, the design and build contracting division of Conder Group, has appointed Mr Bill Leonard as its finance director. He was previously a divisional finance director with British Aerospace and latterly acting vice president (finance) of BAE Inc.

■ Mr Stephen J. Deakin has left Nico to join the board of OVERBURY & SONS, based in London.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

BRITISH FUNDS—Contd

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
303	209	ANZ SA1	219xd	+2	44c	1.4	9.1	7.8
210	172	Abbey National 10p	202	......	5.7	4.3	3.8	8.2
*274	210	Allied Irish Ord	234	......	Q40%	♦	4.0	♦
£13½	£11¼	Algemene Fl.10	£11¼	......	Q28%	2.1	8.0	5.9
85	71	Anglo Irish	71	......	Q18.7%	2.7	6.2	9.7
81	68	Ansbacher (H.) 1p	78	......	2.5	1.3	4.3	22.5
£71½	£54¼	Bancaire Cie Fr100	£60¼	–¼	Q12¼%	–	2.3	–
£22½	£16⅝	Banco Bilbao Viz	£19	......	Q49.1%	2.7	4.4	12.3
£31	£24¾	Banco de Santander	£27	......	Q25%	2.4	4.1	10.1
286	224	Bank Ireland IrE1	257	......	Q14.7%	2.9	5.4	8.6
£19½	£18	Bank Leumi	£19½	......	–	–	–	–
350	320	Bank Leumi (U.K.)	345	......	†13.5	–	5.2	–
125	104	Bank Scotland	119	–1	4.55	3.3	5.1	7.9
100¼	83¼	Do. 9¼pc Irrd Pf	94¼	–½	9¼%	–	13.3	–
54	39	Bank of Wales	46	......	2.8	0.8	8.1	(22.1)
428	352	Barclays £1	387xd	–6	h19.57	3.5	6.7	5.4
22	12	Benchmark 20p	13	......	1.63	1.0	16.7	7.5
335	310	Brown Shipley £1	312xd	......	12.0	♦	5.1	♦
*435	341	Cater Allen £1	415xr	+10	N24.5	♦	7.9	♦
179	124	Chancery	127	......	†8.0	2.8	8.4	5.6
£23¼	£18½	Commerzbk DM10	£18¼	–⅛	Q18%	–	3.5	–
£13⅛	842	Dai Ichi KBk Y50	920	+33	Q17%	♦	0.4	♦
*£313	£261	Deutsche Bk DM50	£264½	+2⅛	Q28%	–	1.9	–
£20⅝	£19	Espirito Santo	£19	–⅛	Q75c	♦	2.4	♦
253	183	First Nat. Fin. 10p	225	+1	13.0	2.4	7.7	6.9
121	96	FNFC 6.3pc Cv. Pf	110	–1	6.3%	–	7.6	–
£13¼	995	Fuji Bank Y50	995	......	Q17%	♦	0.3	♦
325	262	Gerrard & National	310	+1	19.0	♦	8.2	♦
154	128	Guinness Mahon 10p	128	......	2.1	–	2.2	–
338	223	Hambros 20p	283	+1	†10.0	–	4.7	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

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MOTORS, AIRCRAFT TRADES — Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY — Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST — Contd

[illegible]

INVESTMENT TRUST — Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

[illegible]

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AUTHORISED UNIT TRUSTS

Metropolitan Unit Trust Mngrs Ltd (1000)F
3 Darkes Lane, Potters Bar EN6 1AJ. 0707 45184

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Eurogrowth Plus	6	76.23	77.22xd	82.15	+0.06	0.58
Global Growth	5¼	44.49	44.49xd	47.33	-0.14	0.53
Global Income Acc	6	55.87	56.65	60.27	-0.07	3.32
Do Income	6	51.34	52.06	55.38	-0.06	3.61
Sunrise Accum	6	68.00	69.54	73.98	+0.23	0.00
UK Growth Acc	6	55.56	56.93	60.56	-0.3	1.65
UK Income Acc	5¼	65.35	66.53	70.78	-0.56	4.24
Do Income	5¼	59.69	60.77	64.65	-0.51	4.64

Midland Unit Trusts Ltd (1200)F
192 Eyre Street, Sheffield, S1 3RD 0742 529888

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
British Tst	6	63.04	63.04	67.42	-0.6	3.04
(Accum Units)	6	65.56	65.56	70.12	-0.61	3.04
Capital	6	110.1	110.1	117.8	-0.5	3.45
(Accum Units)	6	160.4	160.4	171.6	-0.7	3.45
European Growth	6	158.6	158.6xd	168.9	-0.1	0.65
(Accum Units)	6	195.6	195.6	208.3	.....	0.65
Extra High Inc	6	65.60	66.82	71.46	-0.3	7.27
(Accum Units)	6	93.89	95.65	102.3	-0.4	7.27
Gilt & Fxd Int	4	47.13	47.16xd	49.25	-0.24	10.07
(Accum Units)	4	101.3	101.4	105.9	-0.5	10.07
High Yield	6	198.5	201.7xd	215.7	-1.1	5.72
(Accum Units)	6	402.5	408.9	437.3	-2.2	5.72
Income	6	245.1	245.1	262.1	-4.9	4.58
(Accum Units)	6	451.4	451.4	482.8	-8.9	4.58
Intl High St UT	6	58.98	58.98	63.08	-0.12	1.73
(Accum Units)	6	61.20	61.20	65.45	-0.13	1.73
Japan Growth	6	334.5	334.5	357.7	-1.9	0.00
(Accum Units)	6	351.6	351.6	376.0	-1.9	0.00
Mandarin Tst	6	69.13	69.24xd	74.05	-0.03	1.15
(Accum Units)	6	70.19	70.29	75.18	-0.03	1.15
Mngd P'folio Acc	6	71.60	72.42	77.45	-0.26	2.51
Money Market UT	1½	49.94	49.94xd	50.69	+0.05	13.59
(Accum Units)	1½	98.18	98.18	99.06	+0.05	13.59
North American	6	122.4	122.4xd	130.9	.....	0.96
(Accum Units)	6	151.1	151.1	161.6	-0.1	0.96
Smaller Cos	6	146.7	146.7	156.9	.....	2.66
(Accum Units)	6	164.2	164.2	175.6	.....	2.66
Meridian Income	6	104.8	104.8	112.1	-2.7	4.18
(Accum Units)	6	111.7	111.7	119.5	-1.9	4.18
Meridian Growth	6	119.9	119.9	128.2	-1.8	2.22

Perpetual Unit Tst Mngmt (1200)F
48 Hart Street, Henley on Thames 0491 576868

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
International Gwth	5¼	359.55	359.55	384.55	-0.14	1.03
Income	5	241.95	241.95	258.78	-1.66	5.08
W'wide Recovery	5¼	216.25	216.25	231.29	+0.38	1.06
American Growth	5¼	99.41	99.41	106.33	+0.20	1.29
Intl Emerging Cos	5¼	102.78	102.78	109.93	-0.04	0.40
Far East Gwth	5¼	135.52	135.52	144.95	+1.58	2.02
European Gwth	5¼	99.84	99.84	106.79	-0.26	1.53
UK Growth	5¼	48.20	48.20	51.56	-0.33	2.98
High Income	5¼	56.89	56.89	60.85	-0.22	5.99
Japanese Gwth	5¼	157.45	157.57	168.53	+0.46	0.01
PEP Gwth & Inc	5¼	58.27	58.66	62.74	+0.02	2.64
Asian Smlr Mkts	5¼	49.96	50.38	53.89	+0.67	1.40

Phillips & Drew Unit Managers Ltd (1400)F
14 Finsbury Square, London EC2A 1PD 071-628 6070

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Charities Fxd Int June 13	¼	94.76	94.76	95.12	.....	10.6
Charities Intl Eq June 13	¼	101.1	101.1	101.5	.....	2.5
UK Exempt June 14	¼	106.9	106.9	109.1	.....	5.4
Charities Intl June 15	¼	122.1	122.1	123.8	.....	2.6

Principal Unit Trust Mngmt Ltd (1600)F
16 South Park, Sevenoaks, Kent TN13 1AN 0732 740700

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Principal Tst	5¼	96.80	98.17	104.44	-0.50	3.50

Prolific Unit Tst Mngrs Ltd (1100)F
222 Bishopsgate, London EC2 071-247 7544/7

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Income	5	63.80	63.80	67.87	+0.03	3.96
Conv & Gilt	5	109.3	109.3xd	116.2	+0.1	8.03
Euro Gwth & Inc	5	62.39	62.39	66.51	+0.11	1.39
Extra Income	5	135.2	137.2xd	146.0	+1.6	4.94
Far East	5	268.8	268.8	286.5	+5.2	0.01
High Income	5	87.88	87.88	93.48	-0.20	4.73
International	5	164.9	164.9	175.4	-1.7	0.14
Nth American	5	157.7	157.7	168.1	-0.3	0.29
Pref & Fxd Int	5	36.41	36.41	38.77	-1.91	10.44
Special Sits	5	111.7	111.7xd	119.0	-2.0	1.57
Technology	5	158.0	158.0xd	168.0	+0.2	0.07

Providence Capital Fd Mgrs Ltd (1000)H
30 Uxbridge Road, London W12 8PG 081-749 9111

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
European Acc	5	150.1	150.1xd	160.8	+0.1	0.67
European Inc	5	144.0	144.0xd	154.2	+0.1	0.67
Japan Acc	5	100.1	100.1	107.1	-0.1	0.00

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust information pages.

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Touche Remnant Unit Tst Mngt Ltd – Contd.						
TR Income Growth	5¼	89.90	89.90	95.63	-0.75	4.79
TR Income Monthly	5¼	52.55	52.55	55.90	-0.28	6.86
TR Japan Growth	5¼	84.68	84.68xd	89.87	-0.55	0
TR German Growth	5¼	68.45	68.45xd	72.97	-0.17	0
TR Smaller Cos	5¼	78.25	78.25	83.24	+0.07	3.64
TR Special Cos	5¼	88.55	88.55	94.20	+0.05	4.18
TR Mgd Eq Fun Acc	5¼	36.23	36.23	38.54	-0.33	2.99
TR Mgd Eq Fun Inc	5¼	33.98	33.98	36.14	-0.31	2.99
TR Wrldw Sp Sit Acc	5¼	39.98	39.98	42.72		0
TR Wrldw Sp Sit Inc	5¼	39.94	39.94	42.68	+0.01	0
TR Pension Portfolio						
TR American Gwth ‡	6	29.77	30.17	31.98	+0.14	0
TR Eur Sp Sits ‡	6	35.95	36.31	38.49	-0.08	0
TR General Growth ‡	6	26.11	26.39	27.98	-0.20	0
TR Global Tech ‡	6	30.99	31.40	33.28	-0.17	0
TR Income Growth ‡	6	26.25	26.53	28.12	-0.17	0
TR Japan Growth ‡	6	26.55	26.78	28.38	-0.09	0
TR Mngd Equity ‡	6	27.80	28.10	29.78	-0.27	0
TR Overseas Growth ‡	6	29.42	29.80	31.59	-0.01	0
TR Smaller Cos ‡	6	18.48	18.68	19.80		0
TR Special Ops ‡	6	18.24	18.43	19.53	+0.03	0
TR Stlg Liquidity ‡	6	26.42	26.88	28.00		0
TR Wrldw Sp Sits ‡	6	32.64	33.15	35.14	+0.16	0
Trades Union Unit Tst Mngrs (1200)H						
NLA Tower, Addiscombe Road, Croydon 081-686 4355						
TUUT	5	254.9	260.4	274.1	-1.7	3.16
Triton Fd Mngrs. Ltd. (1000)H						
Royal Ldn. Hse. Colchester CO1 1RA 0206 764400						
Triton General	5¼	171.7	174.3	185.5	-1.40	3.29
Tyndall Unit Tst Mngrs Ltd (1600)F						
25 Bucklersbury, London EC4N 0800 373574						
Austral Value	5¼	40.38	40.38	42.82		—
British Loan	5	89.57	89.57	94.95	-0.61	4.01
Accum Units	5	94.65	94.65	100.34	-0.63	4.01
Capital Defender	5	37.84	37.84	40.12	+0.16	12.86
Accum Units	5	43.21	43.21	45.81	+0.18	12.86
1992 European Acc	5¼	77.96	77.96	82.65	-0.40	1.05
Income	5	79.39	79.39	84.17	-0.47	7.98
Accum Units	5	91.40	91.40	96.89	-0.55	7.98
Smaller Co's	5	71.61	71.61	75.92	-0.08	3.53
Accum Units	5	74.76	74.76	79.25	-0.09	3.53
Tiger Accum H	5¼	75.31	75.31	79.84	-0.62	1.86
UK Unit Trust Managers Ltd (0905)F						

	Bid Price	Offer Price	+ or -	Yield Gross
Abbey Life Assurance Co Ltd – Contd.				
High Inc. Ser. 4	479.7	505.0	-1.2	—
Money Ser. 4	250.4	263.4		—
Intl Ser. 4	115.3	121.4		—
Custodian Ser. 4	105.6	111.2	-0.4	—
Pension Funds				
Property	647.8	681.9		—
Equity	1188.1	1250.7	-8.9	—
Selective	387.5	407.9	-1.8	—
Managed	868.0	913.7	-5.4	—
Security	495.4	521.5		—
Fixed Int	264.2	278.2	-1.9	—
Indexed	159.8	168.3	-0.7	—
American	278.3	293.0	-0.6	—
Japan	321.1	338.0	+1.0	—
European	185.9	195.7	+0.4	—
High Income	133.3	140.4	-0.3	—
Ethical	122.8	129.3	-0.5	—
International	211.7	223.0	+0.1	—
Acuma Life Assurance Ltd				
The Glanty, Egham, Surrey TW2 9AT 0784 475535				
Managed	175.5	184.9	-0.7	—
World Growth	147.4	155.2		—
UK Equity	204.0	214.7	-1.2	—
UK Small Companies	175.4	184.6	+0.1	—
European	153.0	161.0	+0.4	—
Far Eastern	311.5	327.2	+1.1	—
Nth American	115.0	121.0	-0.5	—
Fixed Interest	128.2	134.9	-1.0	—
Index Linked Stks	144.1	151.6	-0.3	—
Money	128.4	135.1	+0.1	—
Pen Managed	223.9	235.7	-0.8	—
Pen World Growth	162.1	170.6	-0.2	—
Pen UK Equity	290.3	305.5	-1.6	—
Pen UK Small Cos	222.3	234.0	+0.3	—
Pen European	150.5	158.4	+0.3	—
Pen Far Eastern	461.1	485.3	+0.6	—
Pen Nth American	116.9	123.0	-0.5	—
Pen Fixed Interest	155.8	164.0	-1.1	—
Pen Index Lnkd Stks	154.1	162.2	-0.3	—
Pen Money	148.3	156.1		—
AEtna Life Insurance Co Ltd				
2-12 Pentonville Rd, London N1 9XD 0800 010575				
Life Funds (Accumulator Units)				

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

Continued on next page

FT MANAGED FUNDS SERVICE

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GUERNSEY (REGULATED)

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Stronghold Fund Mngrs Ltd				
Intl Man Fd	$10.92	10.97	.....	—
Stronghold Asset Mngmt (Guernsey) Ltd				
The Thai-Euro Fund Ltd				
Tyndall International (Guernsey) Ltd				
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$711.49		.....	—
Fund Income Shares	$828.79		.....	—

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Allied Irish Fund Managers—Contd.						
Barclays Intl Funds						
Brown Shipley Fund Mngt (CI) Ltd						
Citibank (CI) Ltd "Citifunds"						

LUXEMBOURG (SIB RECOGNISED)

	Bid Price	Offer Price	+ or -	Yield Gross
Warburg Asset Management Jersey Ltd				
Ch Island & Int	£1.44	1.54	.....	1.95
Wardley Fund Managers (Jersey) Ltd				

LUXEMBOURG (REGULATED)(**)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Royal Trust Assetmix Fund—Contd.						
Sanpaolo Group (Luxembourg)						
c/o 9 St Pauls Churchyard, London, EC4. 071-489 8825						

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	+ or -	Yield Gross
Merrill Lynch Asset Management—Contd.				
Class A	$11.52		.....	—
Class B	$11.30		.....	—
MIM Britannia International Ltd				
Morgan Stanley Sicav				

	Bid Price	Offer Price	+ or -	Yield Gross
Drexel Burnham Lambert—Contd.				
Dreyfus Intercontinental Inv. Fd.				
Elders (Switzerland) Invest. Mngt. SA				
Emerging Markets Management				
Ermitage Group				

	Bid Price	Offer Price	+ or -	Yield Gross
Malaysia Capital Fund Ltd				
NAV June 15	$10.02		...	—
Malaysia Growth Fund				
NAV June 15	$12.49		-0.28	—
Malaysia Select Fund Ltd				
NAV May 31	$10.2646		.....	—
Malaysian Smaller Co's Fd (Cayman) Ltd				
NAV June 11	$11.35		...	—
Man International Futures				

	Bid Price	Offer Price	+ or -	Yield Gross
Warburg Inv Mngmt (Isle of Man) Ltd				
DM Fd BOPUPs	DM10.03	10.04	.....	—
DM Fd OPUPs	DM10.29	10.35	.....	—
Yen Fd BOPUPs	$7.54	7.55	.....	—
Yen Fd OPUPs	$10.43	10.50	.....	—
Wardley Investment Services Ltd				
Wardley S.E. Asia Tst.	$13.30	13.98	.....	0.79
Japanese Warrants	$9.91	10.5	(z)	—
Asian Warrants	$9.79	10.37	(z)	—
European Warrants	$10.06	10.66	(z)	—
Managed	HK$9.66	10.29	.....	—
Wells Fargo U.S. IT Fund				
NAV June 15		$10.09	.....	—
Xiphias International Investment Fd Ltd				
Xiphias Int USD		$1.0253	.....	—
Xiphias Int ECU		Ecu1.0241	.....	—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
CAF Money Management Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD			0732 770114	
Cafcash Deposit Fd	14.70	—	15.53	3-Mth
The COIF Charities Deposit Account				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Deposit	14.75	—	15.59	3-Mth
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Deposit	14.85	—	15.70	3-Mth
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1NX			071-236 1425	
Call Fnd	14.19	11.07	15.16	6-Mth
7-day Fund	14.39	11.22	15.38	6-Mth
Special Fund	14.54	—	15.93	1-Mth
Dollar	7.00	5.46	7.43	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Aitken Hume Bank plc				
30 City Road, EC1Y 2AY			071-638 6070	
Treasury Acc.	13.50	10.53	14.60	Qtr
Mth Int Chq £1,000-£4,999	13.50	10.53	14.73	Mth
Mth Int Chq £5,000-£49,999	14.00	10.92	15.31	Mth
Mth Int Chq £50,000+	14.50	11.31	15.88	Mth
Allied Trust Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			071-629 6802	
DMNA (£2,001+)	14.78	11.53	16.210	Mth
HICA (£2,001+)	13.90	10.84	15.196	Mth
PPBMNA (£250,001+)	14.90	11.62	16.349	—
American Express Bank Ltd				
c/o American Express Financial Services Limited, 49 The Martlets, Burgess Hill, West Sussex, RH15 9NW 0444 870088				
High Performance Cheque Account				
£1,000-£4,999	12.16	9.50	12.87	Mth
£5,000-£9,999	12.30	9.60	13.01	Mth
£10,000-£24,999	12.81	10.00	13.59	Mth
£25,000+	13.58	10.60	14.46	Mth
Bank of Ireland High Interest Cheque Acc				
36 Queen St, EC4R 1BN			071-625 7000	

MANAGED FUNDS NOTES

... Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ● Yield column shows annualised rates of NAV increase. xd ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey: Financial Services Commission; Isle of Man: Financial Supervision Commission; Jersey: Commercial Relations Department; Luxembourg: Institut Monetaire Luxembourgeois.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Inflation worries hit sterling

STERLING WEAKENED yesterday as worries over inflation persisted following the release of UK unit labour cost figures. Other currencies were thinly traded and the US dollar was confined to a narrow range.

The pound began the day in Europe below Friday's closing levels after a decline in New York and Tokyo. Japanese dealers had responded to adverse comment in some of the weekend press by marking it lower.

The next leg of sterling's decline came after the publication of a batch of UK economic statistics. Unit labour cost data unsettled the market the most.

In the three months until the end of April, unit labour costs in manufacturing industry rose by 8.1 per cent from the same period last year, which compared with expectations of a 7.9 per cent increase and a revised 8.1 per cent rise in the period to March.

The unit labour cost figures along with those for industrial and manufacturing production showed that the economy was still not slowing down, said Mr Andrew Longbottom, senior economist at Barclays Bank. And Mr David Coleman of Union Discount said: "This reinforces the idea that inflation will not be coming down in a hurry."

The concern about inflation led to worries that sterling may not be able to become a full member of the European Monetary System in the autumn, as reported in the press last week.

In addition, a larger-than-expected increase in UK public sector borrowing upset the market. The £1.7bn May public sector borrowing requirement compared with expectations of £300m.

But analysts said that high UK interest rates prevented a larger decline by sterling. Many dealers said sterling had been surprisingly resilient in the face of recent inflationary fears. Furthermore, at a time when the dollar appeared locked in a tight range, sterling had become more of a speculative play in the currency markets.

Sterling closed at DM2.8725, down from DM2.8900 on Friday.

It also ended at $1.7135 up from $1.7065; it weakened to SFr2.4275 from SFr2.4500; to FFr9.6550 from FFr9.7175; and strengthened to Y263.25 from Y263.00. Sterling index, calculated by the Bank of England, closed 0.2 point down at 90.4.

Among the other major currencies, the US dollar was mixed in a tight range. It fell against a strengthening D-Mark.

Against the Japanese yen it rose, as the yen was depressed by talk of a political scandal. Mr Longbottom said the dollar could remain "on hold" until German monetary union on July 2 or the release of June US non-farm payroll data on July 6.

The dollar closed at DM1.6760 from DM1.6930; at Y153.70 from Y154.15; at SFr1.4165 from SFr1.4350; and at FFr5.6350 from FFr5.6950. The dollar's index fell to 67.6 from 67.9.

£ IN NEW YORK

June.18	Close	Previous Close
£ Spot	1.6740-1.6745	1.6880-1.6887
1 month	0.92-0.90pm	0.92-0.91pm
3 months	2.71-2.68pm	2.71-2.68pm
12 months	9.28-9.21pm	9.29-9.22pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June.18	Previous
8.30 am	90.5	90.7
9.00 am	90.5	90.8
10.00 am	90.5	90.8
11.00 am	90.5	90.8
Noon	90.4	90.5
1.00 pm	90.4	90.6
2.00 pm	90.4	90.5
3.00 pm	90.4	90.6
4.00 pm	90.4	90.6

CURRENCY RATES

June.18	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	0.768971	0.714687
U.S Dollar	7	1.31148	1.21997
Canadian $	13.32	1.53705	1.42956
Austrian Sch.	6½	15.6342	14.4872
Belgian Franc	10¼	45.6788	42.3391
Danish Krone	10½	8.46560	7.83209
Deutsche Mark	6.00	2.21876	2.05907
Neth Guilder	7.00	2.50034	2.31831
French Franc	10¼	7.47347	6.92760
Italian Lira	13½	1629.51	1511.54
Japanese Yen	5¼	202.634	188.058
Norway Krone	8	8.52069	7.90663
Spanish Peseta	-	137.176	127.084
Swedish Krona	11	N/A	7.44487
Swiss Franc	6.00	1.88363	1.74639
Greek Drach.	20½	N/A	201.332
Irish Punt	-	N/A	0.767857

† European Commission Calculations.
* All SDR rates are for June 15

CURRENCY MOVEMENTS

June 18	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.6	-21.3
U.S Dollar	67.6	-10.3
Canadian Dollar	103.8	+1.0
Austrian Schilling	109.5	+11.4
Belgian Franc	111.2	-2.4
Danish Krone	110.4	+4.4
Deutsche Mark	118.1	+23.7
Swiss Franc	113.5	+21.9
Guilder	114.1	+15.6
French Franc	104.1	-12.6
Lira	101.1	-18.5
Yen	120.4	+49.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for June.15 .

OTHER CURRENCIES

June.18	£	$
Argentina	8520.40 - 8527.10	4990.00 - 5000.00
Australia	2.1915 - 2.1935	1.2830 - 1.2840
Brazil	93.9125 - 94.9925	55.0000 - 55.6000
Finland	6.7750 - 6.7880	3.9685 - 3.9715
Greece	279.65 - 284.15	163.50 - 166.65
Hong Kong	13.2970 - 13.3100	7.7825 - 7.7845
Iran	118.20*	70.10*
Korea(Sth)	1215.60 - 1235.25	713.40 - 719.00
Kuwait	0.49930 - 0.50060	0.29240 - 0.29300
Luxembourg	59.25 - 59.35	34.55 - 34.65
Malaysia	4.6285 - 4.6395	2.7105 - 2.7125
Mexico	4862.10 - 4866.25	2847.00 - 2848.00
N. Zealand	2.9310 - 2.9355	1.7155 - 1.7175
Saudi Ar.	6.4025 - 6.4080	3.7495 - 3.7505
Singapore	3.1535 - 3.1605	1.8470 - 1.8490
S. Af (Cm)	4.5495 - 4.5610	2.6660 - 2.6675
S. Af (Fn)	6.6495 - 6.7820	3.8910 - 3.9685
Taiwan	46.80 - 46.90	27.40 - 27.45
U.A.E.	6.2690 - 6.2725	3.6715 - 3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Jun 18	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅞-14¾	14⅞-14¾	14 13/16-14 11/16	14 13/16-14⅝	14 15/16-14 13/16	14 15/16-14 13/16
US Dollar	8¼-8⅛	8¼-8⅛	8⅜-8¼	8⅜-8¼	8½-8⅜	8⅝-8½
Can Dollar	13¼-13	13¼-13	13½-13¼	13½-13¼	13¼-13⅛	13-12¾
D. Guilder	8¼-7¾	8⅛-7 13/16	8¼-8⅛	8⅜-8¼	8½-8⅜	8⅝-8½
Sw. Franc	8¾-8½	8¾-8⅝	8 13/16-8 11/16	8 13/16-8 11/16	8¾-8⅝	8¾-8⅝
Deutschmark	7⅞-7¾	7 15/16-7 13/16	8-7⅞	8⅛-8	8⅜-8¼	8⅝-8½
Fr Franc	9 13/16-9 11/16	9 13/16-9 11/16	9¾-9⅝	10-9⅞	10⅛-10	10 5/16-10 3/16
Italian Lira	13-11	11-10	11⅛-10⅞	11⅛-10⅞	11½-11¼	12-11¾
Belgian Franc	9⅝-9½	9⅝-9½	9⅝-9½	9⅝-9½	9¾-9⅝	9⅞-9¾
Yen	7½-7¼	7½-7¼	7½-7¼	7½-7¼	7⅞-7¾	7⅞-7¾
D.Krone	11½-10½	11¼-10 13/16	10 13/16-10 11/16	10¾-10⅝	10¾-10⅝	10¾-10⅝
Asian $Sing	8 5/16-8 3/16	8 5/16-8 3/16	8⅜-8¼	8½-8⅜	8½-8⅜	8 11/16-8 9/16

Long term Eurodollars: two years 8 11/16-8 9/16 per cent; three years 8 13/16-8 11/16 per cent; four years 9 1/16-8 15/16 per cent; five years 9 3/16-9 1/16 per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT - FORWARD AGAINST THE POUND

June.18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7050 - 1.7145	1.7130 - 1.7140	0.92-0.90cpm	6.37	2.71-2.68pm	6.29
Canada	1.9985 - 2.0090	2.0060 - 2.0070	0.22-0.14cpm	1.08	0.62-0.49pm	1.11
Netherlands	3.22¼ - 3.25¼	3.22¼ - 3.23¼	1¾-1⅝cpm	6.26	5¼-5pm	6.26
Belgium	59.00 - 59.35	59.25 - 59.35	26-23cpm	4.96	78-71pm	5.03
Denmark	10.92¼ - 10.98	10.96½ - 10.97½	3¾-3¼orepm	3.90	11-10½pm	3.92
Ireland	1.0710 - 1.0755	1.0710 - 1.0720	0.40-0.35ppm	4.20	1.16-1.05pm	4.13
W. Germany	2.86¼ - 2.88¼	2.87 - 2.87½	1⅝-1½pfpm	6.53	4¼-4¼pm	6.27
Portugal	252 - 254¼	252½ - 253½	44-24cpm	1.61	17-23dis	-0.32
Spain	176.15 - 178.35	176.15 - 176.45	4-3cpm	0.24	6-7dis	-0.15
Italy	2106¼ - 2110¼	2107½ - 2108½	7-6cpm	3.70	19-17pm	3.42
Norway	11.04½ - 11.10	11.09 - 11.10	3¼-2⅞orepm	3.31	9¼-8⅞pm	3.27
France	9.65 - 9.71¼	9.65 - 9.66	4⅛-3⅞cpm	4.97	11½-11¼pm	4.69
Sweden	10.40½ - 10.44¼	10.43½ - 10.44½	2½-2¼orepm	2.66	6½-5⅞pm	2.37
Japan	262¼ - 263¾	262¾ - 263¾	1¾-1½ypm	7.41	4⅞-4½pm	7.12
Austria	20.18 - 20.30	20.18 - 20.22	10¼-9⅞gropm	6.13	31⅞-29¼pm	6.07
Switzerland	2.42¼ - 2.45	2.42¼ - 2.43¼	1¼-1⅛cpm	5.87	3¾-3¼pm	5.77
ECU	1.3865 - 1.3970	1.3960 - 1.3970	0.56-0.55cpm	4.68	1.58-1.53pm	4.45

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.22-5.17cpm 12 month 9.25-9.15cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

June.18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7050 - 1.7145	1.7130 - 1.7140	0.92-0.90cpm	6.37	2.71-2.68pm	6.29
Ireland†	1.5870 - 1.5990	1.5980 - 1.5990	0.33-28cpm	2.29	0.94-0.84pm	2.23
Canada	1.1700 - 1.1730	1.1720 - 1.1730	0.50-0.53cdis	-5.27	1.52-1.57dis	-5.27
Netherlands	1.8830 - 1.9095	1.8860 - 1.8870	par-0.02cdis	-0.06	0.05-0.10dis	-0.16
Belgium	34.55 - 34.75	34.55 - 34.65	1.00-7.00cdis	-1.38	7.00-17.00dis	-1.38
Denmark	6.39¾ - 6.42¼	6.40 - 6.40½	1.20-1.50oredis	-2.52	3.45-4.15dis	-2.37
W Germany	1.6725 - 1.6890	1.6755 - 1.6765	0.04-0.02pfpm	0.21	0.05-0.02pm	0.08
Portugal	147.15 - 148.10	147.15 - 147.25	55-65cdis	-4.87	230-250dis	-6.49
Spain	103.45 - 104.30	103.50 - 103.60	52-59cdis	-6.40	160-173dis	-6.40
Italy	1229¼ - 1239¼	1230 - 1230½	2.50-3.00liredis	-2.67	8.40-9.40dis	-2.88
Norway	6.46½ - 6.48¼	6.47¼ - 6.47¼	1.55-1.90oredis	-3.20	4.85-5.45dis	-3.18
France	5.62¾ - 5.68¼	5.63¼ - 5.63¾	0.67-0.72cdis	-1.47	2.33-2.43dis	-1.68
Sweden	6.08 - 6.10½	6.09 - 6.09½	1.88-2.02oredis	-3.84	5.85-6.40dis	-4.02
Japan	153.65 - 154.25	153.65 - 153.75	0.14-0.12ypm	1.01	0.40-0.37pm	1.00
Austria	11.84½ - 11.88	11.85 - 11.85½	0.05-0.40grodis	-0.23	0.40-1.50dis	-0.32
Switzerland	1.4135 - 1.4320	1.4160 - 1.4170	0.04-0.08cdis	-0.50	0.15-0.20dis	-0.49
ECU	1.2190 - 1.2295	1.2240 - 1.2250	0.17-0.16cpm	1.62	0.59-0.56pm	1.88

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June.18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.3391	+0.41	+0.41	±1.5508
Danish Krone	7.79845	7.83209	+0.43	+0.43	±1.6453
German D-Mark	2.04446	2.05907	+0.71	+0.71	±1.1762
French Franc	6.85684	6.92760	+1.03	+1.03	±1.3618
Dutch Guilder	2.30358	2.31831	+0.64	+0.64	±1.5272
Irish Punt	0.763159	0.767857	+0.62	+0.62	±1.6689
Italian Lira	1529.70	1511.54	-1.19	-1.19	±1.5162
Spanish Peseta	132.889	127.084	-4.40	-4.40	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency
Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

June.18	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.714	2.873	263.3	9.655	2.428	3.233	2108	2.007	59.30
$	0.583	1	1.676	153.6	5.633	1.417	1.886	1230	1.171	34.60
DM	0.348	0.597	1	91.65	3.361	0.845	1.125	733.7	0.699	20.64
YEN	3.798	6.510	10.91	1000.	36.67	9.221	12.28	8006	7.622	225.2
F Fr.	1.036	1.775	2.976	272.7	10.	2.515	3.349	2183	2.079	61.42
S Fr.	0.412	0.706	1.183	108.4	3.977	1	1.332	868.2	0.827	24.42
H Fl.	0.309	0.530	0.889	81.44	2.986	0.751	1	652.0	0.621	18.34
Lira	0.474	0.813	1.363	124.9	4.580	1.152	1.534	1000.	0.952	28.13
C $	0.498	0.854	1.431	131.2	4.811	1.210	1.611	1050	1	29.55
B Fr.	1.686	2.890	4.845	444.0	16.28	4.094	5.452	3555	3.384	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE BUND FUTURES OPTIONS

[illegible]

LIFFE EUROMARK OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING OPTIONS

[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT

[illegible]

US TREASURY BONDS 8%

[illegible]

6% NOTIONAL GERMAN GOVT. BOND

[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND

[illegible]

THREE MONTH STERLING

[illegible]

THREE MONTH EURODOLLAR

[illegible]

THREE MONTH EUROMARK

[illegible]

THREE MONTH ECU

[illegible]

FT-SE 100 INDEX

[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7135	1.7044	1.6866	1.6616	1.6215

CHICAGO

U.S. TREASURY BONDS (CBT)

[illegible]

U.S. TREASURY BILLS (IMM)

[illegible]

THREE-MONTH EURODOLLAR (IMM)

[illegible]

STANDARD & POORS 500 INDEX

[illegible]

JAPANESE YEN (IMM)

[illegible]

DEUTSCHE MARK (IMM)

[illegible]

SWISS FRANC (IMM)

[illegible]

IMM-STERLING $s per £

	Close	High	Low	Prev.
Jun	1.7066	1.7104	1.7050	1.7100
Sep	1.6870	1.6886	1.6802	1.6830
Dec	1.6620	1.6642	1.6570	1.6584

PHILADELPHIA SE £/$ OPTIONS

[illegible]

10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

[illegible]

THREE-MONTH PIBOR FUTURES (MATIF)

	Open	Close	Change	High	Low	Yield	Open int.
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	89.84	89.87	-0.02	89.87	89.84	10.13	3,523
March	89.84	89.87	-0.02	89.95	89.84	10.13	788
June	-	-	-	-	-	-	-

Estimated volume 2,924 Total Open Interest 15,258

CAC-40 FUTURES (MATIF) Stock index

	Open	Close	Change	High	Low	Open Int
June	2012.0	1990.5	-30.5	2018.0	1990.0	4,477
July	2015.0	1990.0	-30.0	2018.0	1990.0	1,663
August	2024.0	2024.0	-5.0	2024.0	2024.0	240
September	-	-	-	-	-	10

Estimated volume 5,238 Total Open Interest 6,390

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	NatWestminster	15
Adam & Company	15	Cyprus Popular Bk	15	Northern Bank Ltd	15
Allied Trust Bank	15	Dunbar Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Duncan Lawrie	15	Provincial Bank PLC	16
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe G'rantee	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15½
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
Clydesdale Bank	15	Midland Bank	15		
Comm.Bk.N.East	15	Mount Banking	15		
Co-operative Bank	*16	Nat Bk. of Kuwait	15		

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MONEY MARKETS

Rates harden

RATES AT the short end of the UK yield curve were firm yesterday as sterling weakened on worries over the outlook for inflation.

Rates started to firm on Friday after the release of the May inflation figures, which showed a yearly rise of 9.7 per cent from 9.4 in April. The worries over inflation were underlined by the latest UK unit labour cost figures, which showed a sharper increase than expected. There was also concern that sterling's rally last week may have been overdone, causing the pound to weaken yesterday.

UK clearing bank base lending rate 15 per cent from October 5

The key three-month interbank rate was unchanged from Friday's close at 14⅝-14½ per cent. But further out along the yield curve rates hardened slightly. Six-month money was offered at 15 per cent, up ⅛ point. Money market dealers said little business had been transacted but added that there was sufficient liquidity to avoid a technical squeeze.

In the futures market, September short sterling shed 7 points to 85.32, while March eased 20 to 86.71.

The Bank of England initially forecast a shortage of around £100m, which was revised to £150m at noon and to £250m during the afternoon. The Bank's only help to the money market was late assistance of around £180m.

Factors contributing to the shortage included bills maturing in official hands and a take-up of Treasury bills, which drained £949m. Bankers' balances below target drained a further £150m. But this was partly offset by Exchequer transactions, which added £425m and a fall in the note circulation of £575m.

In Frankfurt, West German call money rose to 7.75-85 per cent, from 7.60-70 per cent, as banks prepared to meet June's tax payments. Tax payments have not yet started to drain liquidity, but banks were still keen to build up reserves.

In Paris, the Bank of France left its intervention rate unchanged at 9.50 per cent at a securities repurchase tender held yesterday to allocate funds for injection into the money market today.

In New York, the Federal Reserve added $1.5bn in temporary reserves to the banking system using customer repurchase agreements, which had been anticipated by the market. At the time of the operation, Federal Funds were trading at an unchanged level of 8¼ per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 18) 3 months US dollars		6 months US Dollars	
bid 8⅜	offer 8½	bid 8½	offer 8⅝

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

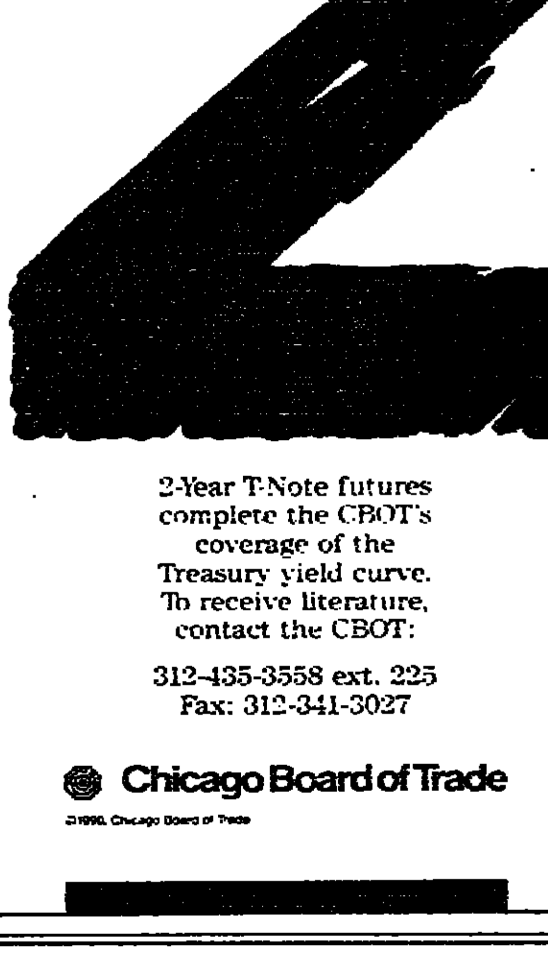
Prime rate	10	One month	7.35	Three year	8.42
Broker loan rate	9¾	Two month	7.47	Four year	8.48
Fed funds	8¼	Three month	7.92	Five year	8.44
Fed.funds at intervention	8¼	Six month	8.06	Seven year	8.54
		One year	8.11	10-year	8.49
		Two year	8.39	30-year	8.47

June 18	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.70-7.80	7.85-8.00	8.00-8.15	8.15-8.30	8.40-8.50	8.00
Paris	9 13/16-9 11/16	9 13/16-9 11/16	9¾-9⅝	9 15/16-10 1/16	10⅛-10¼	9.50
Zurich	8⅝-8⅜	8⅝-8⅞	-	8⅝-8⅞	-	-
Amsterdam	7.68-7.81	8.05-8.15	-	8.26-8.36	-	-
Tokyo	7⅜-7⅞	7¼-7¼	-	7¼-7⅜	-	-
Milan	11¼-11½	11⅛-11⅜	-	11¼-11⅜	-	-
Brussels	7.35	9 11/16-9 13/16	-	9 11/16-9 13/16	-	-
Dublin	10⅞-11⅛	11 1/16-11 3/16	11-11⅛	10 15/16-11 1/16	10¾-11	-

LONDON MONEY RATES

Jun 18	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15½	14 13/16	14 13/16	14 13/16	15	14⅞
Interbank Bid	14	14½	14 11/16	14⅝	14⅞	14¾
Sterling CDs.	—	—	14 11/16	14⅝	14 13/16	14¾
Local Authority Deps.	14¼	14½	14¾	14⅞	14⅞	14¾
Local Authority Bonds	—	—	—	—	—	—
Discount Mkt Deps.	15	14⅝	14 13/16	14½	—	—
Company Deposits	—	—	14 13/16	14 13/16	14 13/16	14 15/16
Finance House Deposits	—	—	14¾	14¾	14⅞	14¾
Treasury Bills (Buy)	—	—	14 11/16	14 11/16	—	—
Bank Bills (Buy)	—	—	14⅝	14⅝	13 15/16	—
Fine Trade Bills (Buy)	—	—	15⅜	15	14⅞	—
Dollar CDs.	—	—	8.23	8.28	8.37	8.52
SDR Linked Dep. Offer	—	—	8⅞	9	9⅛	9⅛
SDR Linked Dep. Bid	—	—	8¾	8⅞	9	9¼
ECU Linked Dep. Offer	—	—	10	10 1/16	10 3/16	10 5/16
ECU Linked Dep. Bid	—	—	9⅞	10 1/16	10 3/16	10 3/16

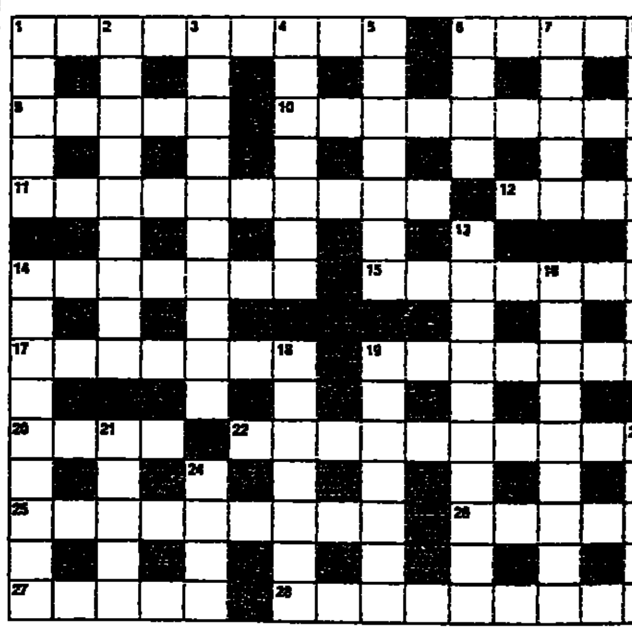
Treasury Bills (sell); one-month 14 13/32 per cent; three months 14 11/32 per cent; Bank Bills (sell): one-month 14½ per cent; three months 14⅜ per cent; Treasury Bills; Average tender rate of discount 14.3572 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day May 31, 1990. Agreed rates for period June 26,1990 to July 24, 1990, Scheme I: 15.91 p.c., Schemes II & III: 16.44 p.c. Reference rate for period May 1,1990 to May 31, 1990, Scheme IV&V: 15.201 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from June 1 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989, Deposits withdrawn for cash 5 per cent.



JOTTER PAD

CROSSWORD

No.7,267 Set by HIGHLANDER



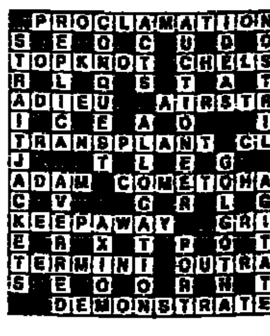
ACROSS

1 Cook came to finish off English vegetable mixture (9)
6 Ground for Archbishop's praises being heard? (5)
9 Is getting close attention in different quarters (5)
10 Dance music provides fleeting impression (9)
11 More mature fruit used for wine-making (10)
12 Because, it's said, not many favour abandoning authorised version (4)
14 Rosemary is one, inflexible about drink (7)
15 Fail to notice I've written letter (7)
17 Sob quietly, nervous reaction concealed (7)
19 Flock takes long time to collect together (7)
20 Originators of English literature adopted natural, vigorous style (4)
22 Take walk then lie on new gymnastic equipment (10)
25 Military change direction – there's a fight on the go (5,4)
26 Confuse tar with smoking product (5)
27 It gives rise to food but as yet ingredients are unstable (5)
28 Lost, so the revised line-up is ineffective (9)

DOWN

1 Abundant supply including cold chopped meat (5)
2 Candle-maker's place has to deal with blubber setting (9)
3 Daughter is offering to deliver (10)
4 Investigation on the ear bearing on requirement for writing (7)
5 March on American military exercise turned up pithy witticism (7)
6 Akin to love (4)
7 In preparation for a lasting relationship (5)
8 Succeed with person two-thirds encased in leather (9)
13 The Madman is way behind the Hitchcock film (10)
14 Concealed by a line manager (9)
16 Not living in with a Northern Ireland couple? (9)
18 Travelling entertainment doesn't stop when it is on tour (7)
19 Find a pepper pot: mine is broken (7)
21 A rambler reported the smell (5)
23 The original large distinctive character (5)
24 Leave it time to congeal outside (4)

Solution to Puzzle No.7,266



WORLD STOCK MARKETS

CANADA

TORONTO

Closing prices June 18

MONTREAL

Closing prices June 18

INDICES

NEW YORK

DOW JONES	June 18	June 15	June 14	June 13	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2882.18	2935.89	2928.22	2929.95	2935.89 (15/6)	2543.24 (30/1)	2935.89 (15/6/90)	41.22 (2/7/32)
Home Bonds	90.98	91.05	90.94	90.92	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1175.73	1193.25	1195.44	1204.56	1212.77 (6/6)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	208.31	211.71	213.09	213.97	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2930.45 (2947.77) Low 2877.48 (2902.72)

STANDARD AND POOR'S

	June 18	June 15	June 14	June 13	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	356.88	362.91	362.91	364.90	367.40 (4/6)	322.98 (30/1)	367.40 (4/6/90)	4.40 (1/6/32)
Industrials	428.00	425.01	424.51	426.27	428.34 (4/6)	371.92 (30/1)	428.34 (4/6/90)	3.62 (21/6/32)
Financial	29.29	29.90	29.94	30.43	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	194.93	197.86	197.98	199.00	200.21 (4/6)	178.43 (30/1)	200.21 (4/6/90)	4.46 (25/4/42)
Amex Mkt. Value	360.76	364.03	364.30	365.04	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	460.79	467.55	467.10	468.86	468.86 (13/6)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	June 15	June 8	May 25	year ago (approx.)
Dow Industrial Div. Yield	3.67	3.71	4.01	3.59

	June 13	June 6	May 30	year ago (approx.)
S & P Industrial div. yield	2.90	2.91	2.93	3.14
S & P Indl. P/E ratio	17.07	17.01	16.89	12.84

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Southeast Bank	1,580,800	10½	- ⅛
Global Marine	1,538,500	4⅞	- ½
Am T & T	1,521,800	41⅞	- ⅞
IBM	1,492,000	118⅞	- 1⅛
Philip Morris	1,320,700	42⅞	- 1¼
Am Express	1,209,500	30⅝	- ½
Boeing	1,205,800	59	- 1⅛
Gen Electric	1,203,300	69⅞	- 1
Nil Semicondtrs	1,167,100	7⅞	- ½
Chrysler	1,137,900	15½	+ ⅛

TRADING ACTIVITY

† Volume Millions	June 18	June 15	June 14
New York	133.470	205.130	135.770
Amex	9.801	12.070	10.118
NASDAQ	(u)	168.499	156.172
Issues Traded	(u)	1,993	1,964
Rises	(u)	611	552
Falls	(u)	834	907
Unchanged	(u)	548	505
New Highs	(u)	38	37
New Lows	(u)	29	29

CANADA

TORONTO	June 18	June 15	June 14	June 13	1990 HIGH	1990 LOW
Metals & Minerals	3183.20	3217.70	3229.20	3250.70	3453.05 (4/1)	2850.80 (23/4)
Composite	3519.85	3569.10	3577.11	3605.71	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1822.66	1856.41	1859.94	1875.24	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

WORLD M.S. Capital Intl. (1/1/70)	(u)	519.1	521.5	520.3	571.0 (4/1)	468.3 (2/4)

**Saturday June 16: Taiwan Weighted Price: (c). Korea Comp Ex. 774.07

‡ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Monday June 18 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Dainippon Phrm.	8.4m	3,240	+30	Nippon Mining	4.4m	1,010	-20
Chiyoda Corp	6.5m	2,660	+60	NKK	4.4m	670	-15
MHI	6.1m	1,060	-10	Hitachi	4.1m	1,510	-30
Kirin Brewery	5.5m	1,860	-40	Nippon Steel	3.6m	590	-10
Tokyo Steel	4.4m	4,440	+60	Toshiba	3.1m	1,110	0

AMEX COMPOSITE PRICES

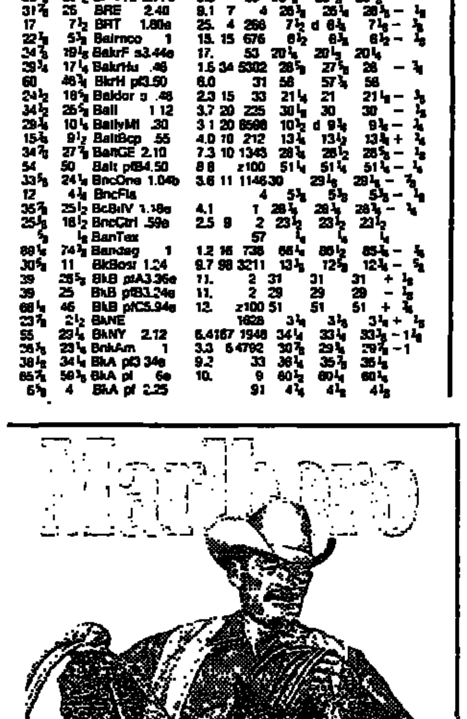
4pm prices June 18

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

4pm prices June 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	19⅛	AAR	.48	2.5	12	158	19⅝	d19¼	19½	
9¼	8	ACM n	1.01	12.		178	8⅝	8¼	8⅝	
11⅛	9⅞	ACMIn	1.26	13.		456	10⅛	10	10	
9⅞	7½	ACM M n	1.01	13.		182	7⅝	7½	7⅝	– ⅛
12½	10	ACMMM				88	10⅛	10⅝	10⅛	+ ⅛
11½	9⅞	ACM Sc	1.26	13.		1739	10	9⅞	9⅞	– ⅛
9⅝	8⅛	ACMSp	1.01	12.		358	8⅞	8¼	8⅜	– ⅛
24⅞	14½	AL Lab	.18	.7	20	114	22⅞	22¼	22⅜	– ⅝
5¼	2⅛	AM Intl				438	2⅞	2¾	2⅞	
23⅛	10¼	AM In pf	2	16.		96	12¾	12½	12⅝	– ⅛
107¼	52½	AMR			12	4464	66⅛	65	65	– 1⅛
4½	3	ARX				50	3⅝	3½	3⅝	+ ⅛
72¼	40⅛	ASA	3a	6.8		705	44⅛	43⅞	44	
39¼	28¼	AbtLab s	.84	2.2	20	11029	u39⅛	38⅞	39	– ⅛
16⅛	11¼	Abitibi g	.50			12	13¼	13¼	13¼	
12⅞	8¼	AcmeC	.40	4.7	10	23	8¾	8½	8½	– ¼
9¼	7⅛	AcmeE	.32	3.7	11	10	8⅞	8¾	8¾	– ⅛
41⅞	28½	Acusn			22	383	37¾	36¾	37⅛	– ⅝
15½	13¼	AdaEx	2.06e	13.		131	16⅛	16⅛	16⅛	– ⅛
15⅞	9½	Adobe				72	11⅞	11⅞	11⅞	– ⅛
20¼	17¼	Adob pf	1.84	9.5		3	19⅝	19⅝	19⅝	
21⅞	20⅛	Adob pf	2.40	12.		1	20⅝	20⅝	20⅝	
11⅞	6⅞	AMD			20	4975	9⅝	9⅛	9¼	– ⅛
34¼	28¼	AMD pf	3	9.5		4	31½	31½	31½	
62½	45¼	AetnLf	2.76	5.2	9	1801	53	52⅝	52⅝	– ⅛
14	9⅞	AhlPb	.24	2.3		264	10⅝	10⅛	10¼	+ ⅛
25	16⅛	Ahmans	.88	4.3	9	3745	21⅛	20⅛	20⅜	– 1
3⅝	1⅞	Aileen				9	2¼	2¼	2¼	– ⅛
58	40	AirPrd	1.32	2.4	14	1226	56¾	56⅛	56⅛	– ⅝
24¼	13⅞	AirFrt s			15	291	22¼	21¾	22¼	– ¼
25⅛	15½	Airgas			29	231	19	18¾	18¾	– ⅜
[illegible]										



Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Prev. Close
14½	7¾	WyleLb	.28	2.2	13	593	13⅛	12⅝	12⅞	- ½
27½	18	Wynns	.60	2.9	13	12	20⅞	20⅞	20⅞	
		- X-Y-Z -								
69½	45⅝	Xerox	3	6.2	8	1989	49⅝	48¾	48½	-1¼
34	21⅛	XTRA	.48a	2.0		120	24⅝	24⅛	24⅛	- ⅛
4⅛	1⅞	Zapata				322	2	1⅞	1⅞	- ⅛
12⅛	6⅛	Zemex				5	6⅛	6⅛	6⅛	
19⅝	7⅞	ZenithE				1000	8⅝	8⅜	8⅜	- ⅜
21½	13½	ZenNtl	.88	5.5	9	185	15⅞	14⅞	15⅛	+ ⅛
9⅝	5⅞	Zenix	.90	15.		x220	6	5⅞	6	
18½	12⅞	Zero s	.40	2.8	14	220	14⅝	14⅛	14⅛	- ⅞
48⅞	34	Zurn	.76	1.6	21	57	47⅝	47½	47⅝	
12⅝	10⅝	Zweig	1.21e	11.		356	11⅝	11½	11½	
10	9	ZweigTl	.96	11.		1461	9⅝	9⅛	9⅛	- ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

3pm prices June 18

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Wyman	.60		196	13¼	12¾	13¼	
- X-Y-Z -							
XL Dta		7	106	14	13	13	- ½
XOMA			1126	23	22½	22¾	- ¾
Xicor			752	3⅛	2¾	3⅛	+ ⅛
YanEnS	1.52e	12	118	19½	19	19½	+ ⅛
YelowF	.76	53	446	29⅜	28⅞	29⅜	- ⅛
YorkRs		20	684	15⅝	14¾	15¼	+ ¼
ZionUt	1.44	10	66	29¾	29	29½	+ ⅛

AMERICA

Significant equity market losses after profit-taking

Wall Street

PROFIT-TAKING exacerbated by waves of programme selling and a downturn in the Treasury bond market pushed the equity market to significant losses yesterday although volume was noticeably low, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed 53.71 points lower at 2,882.18. This was the third largest daily drop this year but came in volume of only 135m shares. The Dow had closed up 7.67 points on Friday at 2,935.89, a record high.

Despite the fact that the blue chip index closed at another all-time high at the end of the last week, it has to be noted that the broad market did not share its robustness. Declining issues outstripped advancing shares by 835 to 611 on Friday, an indicator that equities as a whole were somewhat weak.

Friday saw a number of weak technical features which suggested that the market is now finding it difficult to make much headway. Most notably, the Dow Jones Industrial Average far outperformed all other major indices last week which suggests a much narrower advance for the market than is needed to sustain a further rally. The Dow Jones Utilities and Transportation Averages, both regarded as technical indicators of the market's overall health, performed badly.

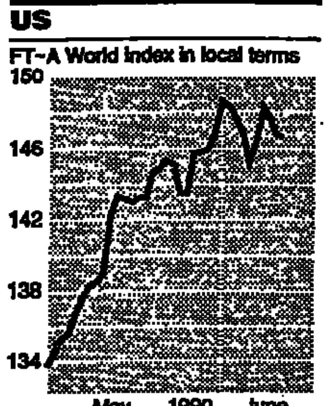
The poor technical characteristics of last week's performance set the stage for yesterday's bout of profit-taking. Other indices were also markedly lower. The broadly-based Standard & Poor's 500 index was quoted 4.50 points lower at 358.41 and the Nasdaq Composite index of over-the-counter stocks was quoted 6.77 points lower at 460.78. Stock index arbitrage plays were clearly on the sell side for the cash market yesterday morning when traders sold the stocks in the S & P 500 index and bought S & P 500 contracts.

Also encouraging profit-taking was weakness in the bond market. The Treasury's benchmark long bond was quoted 7/16 point lower to yield 8.45 per cent. Weakness in bonds was a continuation of the softness seen last Friday in the wake of a stronger than expected rise in industrial production in May which dampened down hopes of a near-term easing in Fed monetary policy. Another factor in the market yesterday was a feeling that talk on Wall Street had been overdone about the current rally being sustained by end of quarter buying by portfolio managers keen to lower their cash positions before reporting to clients.

Yesterday's selling clearly appeared to undermine this justification for further buying.

US

FT-A World index in local terms



Canada

SHARE PRICES followed the tone set in New York and closed sharply lower in dull trade.

The Toronto Composite Index sank 49.24 points to close at 3,519.85 with declines over advances 402 to 173. Volume was a scant 17.4m shares, up slightly from 17m shares on Friday and value of trading rose to C$204.8m from C$183.0m. Industrial products and financial services were both down by more than 2 pc on index.

Consumer products and mining were both down by more than 1 pc.

South Africa slides on plunge in bullion

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1990	% change sterling † Start of 1990	% change in US $ † Start of 1990
Austria	−1.15	+1.07	+68.62	+33.58	+25.63	+33.16
Belgium	−1.77	+0.11	−2.58	−5.33	−8.49	−3.17
Denmark	+1.73	+4.30	+11.62	+4.61	+0.88	+6.76
Finland	−1.19	−2.68	−13.92	−0.33	−4.45	+1.13
France	−0.78	−3.80	+12.90	−0.76	−4.74	+0.81
W. Germany	−2.27	−3.76	+25.28	+1.25	−4.40	+1.18
Ireland	+1.45	+6.07	+21.57	+2.70	−1.34	+4.41
Italy	+0.48	+4.05	+12.87	+7.24	+3.39	+9.43
Netherlands	+0.06	+1.28	+1.11	−3.39	−8.47	−3.13
Norway	−1.93	−2.44	+21.72	+15.12	+10.49	+16.93
Spain	+0.21	−0.32	−10.85	−6.25	−7.62	−2.23
Sweden	−1.10	+7.06	+20.02	+9.88	+5.14	+11.27
Switzerland	+0.38	+4.01	+12.76	+2.05	+3.64	+9.67
UK	+1.04	+5.59	+9.86	−1.67	−1.67	+4.06
EUROPE	−0.06	+1.77	+11.40	−0.06	−2.44	+3.25
Australia	−0.08	+2.78	+1.80	−7.03	−13.75	−8.73
Hong Kong	+0.83	+9.00	+35.24	+12.72	+6.77	+13.00
Japan	−0.82	−0.16	−6.09	−18.73	−28.36	−24.18
Malaysia	−3.05	+1.21	+27.23	−0.35	−6.29	−0.83
New Zealand	+2.15	+1.23	−1.04	−7.00	−13.85	−8.84
Singapore	−0.82	+1.42	+22.79	+13.46	+10.16	+16.58
Canada	+0.14	+1.25	−2.58	−7.99	−14.10	−9.09
USA	+1.08	+2.42	+12.29	+2.54	−3.11	+2.54
Mexico	−2.76	+5.46	+150.41	+70.93	+52.90	+61.81
South Africa	−5.36	−9.42	+19.56	−1.27	−18.26	−13.50
WORLD INDEX	+0.04	+1.27	+4.63	−6.86	−13.80	−8.77

† Based on June 15th 1990. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Ltd.

By Antonia Sharpe

SOUTH AFRICA fell victim to the plunge in gold bullion prices last week. Bullion hit four-year lows, and Johannesburg was the worst performer in the FT-Actuaries World Indices. In Europe, West Germany continued to suffer from worries about the price of German unity, and more disappointing company results.

In local currency terms, South Africa has now lost the gains it made earlier this year; these followed the release of Mr Nelson Mandela in February, and the Government's budget in March which made tax concessions for mining companies wanting to develop new mining areas.

The decline in the bullion price to $340 an ounce last week had been anticipated by international funds, according to an analyst on South African gold stocks in London. International gold fund managers usually invest up to 20 per cent of their portfolios, worth $7.8bn at the end of March, in South African gold shares. But in view of the falling bullion price, they had raised their cash position from an average 7.4 per cent at the end of March to an estimated 12 per cent currently. This compares with 5 per cent last December.

While South African gold shares looked attractive in the long term, considering that Australian and North American gold production was set to fall over the next five years, they were likely to remain out of favour for the time being.

The decline in the bullion price had put local investors in Johannesburg and Cape Town in a difficult position. They had bought the market heavily from January to March on optimism about earnings growth, but they were now worried that they had made a mistake, given the fall in the bullion price and increasing retrenchments in the mining industry.

"There has been a steady realisation that the mining industry will not be bailed out by a depreciation of the rand, since the central bank wants to beat inflation," the analyst said.

While gold's direction over the next few months will be crucial to the market, the start of talks between the Government and the African National Congress could help lift investor sentiment. Progress towards a new constitution could lead to a lifting of sanctions, which would not only help the mining industry, but also other export industries, from steel to fruit and wine.

Europe's worst performer last week was West Germany, dragged down by a forecast from the chairman of the chemical company, Hoechst, that 1990 earnings could fall by up to 10 per cent from 1989's record levels. "The fact that when Hoechst went ex dividend, it fell the full 20 marks it was worth to German investors, shows that no one wants to own the shares except as a quasi-bond," said Mr Adrian Phillips of Kleinwort Benson Securities. Furthermore, the size of the problems facing West Germany in the rebuilding of East Germany's dilapidated economy were becoming more clear by the day.

On a more positive note, Denmark rose 1.7 per cent as it reached record highs, fuelled by merger speculation in the insurance sector.

EUROPE

Bourses trade tentatively as volume remains thin

BOURSES WERE in a tentative mood yesterday, with investors concentrating on what could happen next. A slight rise in Frankfurt left the DAX index still below the 1,800 level, while light profit-taking in Milan was viewed as the start of a period of consolidation, *writes Our Markets Staff.*

FRANKFURT stayed in sensitive territory, the DAX index rising 5.16 but still closing below the 1,800 level at 1,797.42, after a 6.48-point rise to 765.72 in the FAZ at midsession.

Mr Jens Wieking, of Merck Finck in Düsseldorf, said that the market was at a crucial stage: there could be another shake-out, following the break below 1,800 last Wednesday and the weak attempts at a recovery; however, German investors have bought nothing, on balance, for the last three months and a further fall now could be the prelude to a real rebound.

Volume stayed relatively low at DM6.2bn. This was up from DM5.5bn on Friday, but it incorporated DM1.4bn for Bayer, imminently ex dividend and the most active stock by a long way; Volkswagen was second on the list, trading in DM401m.

Bayer, down DM7 at DM265.50, and BASF, DM4.50 lower at DM263.50, followed Hoechst down after the latter's indication of lower 1990 profits last Tuesday. The Bavarian banks were strong: Bayernhypo, up DM15.70 at DM381.50 after a period of underperformance; and Bayernverein on a story about its stakeholdings which gained little credence, but which gave the market something to deal on.

MILAN fell in reduced volume on selling pressure from domestic investors. The Comit index slipped 0.15 to 757.42.

Dealers said profit-taking was inevitable after the recent gains and gave the market a much-needed opportunity to consolidate.

An article in an Italian newspaper, saying that nearly 30 per cent of total volume in Italian stocks that have listings on London's Seaq International was now traded in London, reawakened local brokers' concern that Parliament was being slow to pass proposed stock exchange reforms. "This article is certainly an alarm bell of the danger of what might happen if these reforms do not become law," one Milan broker said.

The steel group, Falck, jumped L649 to L11,699 amid continued speculation of a link-up with Italy's state-owned steel company, Ilva, or Usinor of France. A report by BNP Securities on Falck's intention to exploit its land assets after years of neglect also sparked interest in the stock.

PARIS fell 1.2 per cent, as the fears of a potential rise in capital gains tax continued to hamstring investors. Yesterday there were the additional worries of a rise in domestic bond yields, in the wake of falling West German bond prices, and a weak opening on Wall Street. Selling pressure was light, however, as the CAC 40 index lost 23.54 to 1,988.33 in thin turnover estimated at FFr1.5bn.

The next support level on the index is 1,980, but a leading stockbrokers predicts a fall to about 1,950 before significant buying emerges.

Declines were across the board, with Michelin losing FFr6.60 to FFr117.50 in the day's largest volume of 417,600 shares, Suez falling FFr7 to FFr430.90, CGE off FFr10 at FFr614 and Peugeot down FFr10 at FFr808.

AMSTERDAM eased in thin trading, pulled down by Wall Street's lower opening. The CBS Tendency Index fell 0.9 to 119.1.

The prospects for the Dutch market were not encouraging, considering that bond yields were at a four-year high, inflation was not coming down, and profits were falling, said Mr Jeremy Goodman of Carnegie International. "This environment, and a view that the Dow is well over-bought, is capping any upside," he said. In addition, a majority of first-half corporate results were likely to be disappointing.

Among the multinational stocks, Philips was steady at Fl 31.90 while Unilever fell Fl 1.70 to Fl 155.80.

BRUSSELS attracted broadly based buying after government statements at the weekend about a closer link between the Belgian franc and the D-Mark. Among the active stocks, Petrofina gained BFr25 to BFr12,075, Intercom rose BFr80 to BFr3,235 and Delhaize picked up BFr50 to BFr6,450.

Fabrique Nationale (FN), the arms maker, continued to fall as confidence in its prospects remained low. It lost BFr37, or 14.3 per cent, to BFr221. The cash market index edged 5.31 lower to 6,279.42, while the forward market index rose 33.17 to 6,263.25.

STOCKHOLM closed mixed in sparse trading which seemed to signal the start of the summer lull. The Affärsvärlden General index fell 1.8 to 1,270.5 on low turnover of SKr210m. Ericsson free B shares rose SKr6 to SKr1,290 after surging to SKr1,330 at midday, boosted by rumours of an imminent SKr2bn to SKr3bn Norwegian order for mobile telephones.

ASIA PACIFIC

Small markets take over from first section

Tokyo

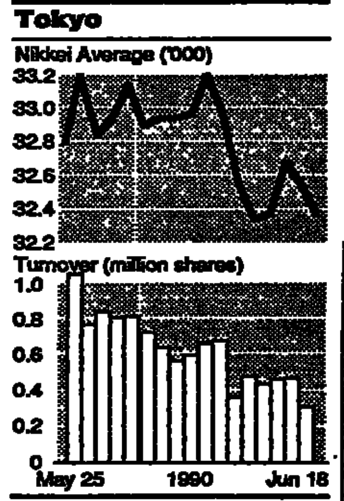
VOLUME SHRANK to its third lowest level this year yesterday as the Nikkei average declined, but buying interest outside the first section was buoyant, with the second-section and the over-the-counter (OTC) markets both hitting records, *writes Michiyo Nakamoto in Tokyo.*

The lack of activity on the first section was unusual even for a Monday. There were few incentives to entice investors into the market and turnover was a paltry 300m shares, down from 450m on Friday.

The Nikkei closed 161.60 lower at 32,376.90. Share prices rose slightly in the morning, but they declined later on small-lot profit-taking. The index fluctuated between a high of 32,634.35 and a low of 32,306.32. Declines swamped advances by 632 to 300, while 190 issues were unchanged.

Tokyo

Nikkei Average ('000)



The Topix index of all listed stocks dropped 15.29 to 2,381.03 and, in London trading, the ISE/Nikkei 50 index eased 0.77 to 1,771.94.

Worries about the yen and interest rates have dampened enthusiasm in the first section. The US had seemed to be on the verge of easing monetary policy, but analysts are still divided over whether it will do so. As for domestic interest rates, the outlook is still bleak, particularly as this week sees the release of money supply figures for May which are expected to be high.

The picture is likely to remain uncertain while the Congress of the Communist Party of the Soviet Union and the monetary union in the two Germanys take place.

In this climate, interest in large-capital issues could not be sustained, said Mr Tetsuya Fukami at Shearson Lehman Hutton. Investors, therefore, turned to the smaller markets, underlined by the all-time highs reached by the second-section TSE index and the OTC stock index.

Investors also picked the small issues on the first section that have good earnings prospects and greater price movements. Among the small-capital winners was Namura Shipbuilding; it rose in contrast to the larger shipbuilders, which have been weak in spite of expectations of strong earnings. Namura gained Y100 to Y1,480, while Mitsubishi Heavy Industries fell Y10 to Y1,060 in active trading.

Drug companies were also actively pursued, with Dainippon Pharmaceutical topping the actives list with 8.4m shares traded. Interest tends to shift to pharmaceuticals when the outlook for the currency and interest rates is uncertain. A forthcoming conference on cancer also helped to to draw attention to drugs.

Dainippon spurted Y160 to Y3,370 at the opening on talk that it was being supported by speculators. Investors were also optimistic that Dainippon would report on its research at the cancer conference, which starts on July 3. Dainippon closed Y30 higher at Y3,240.

Enthusiasm for environmental issues helped Chiyoda Corp, a plant engineer with strength in environment protection equipment, rise Y80 to Y2,660. It came second in volume terms with 6.5m shares traded.

A fall in large-capital issues pulled the OSE average in Osaka 117.04 lower to 35,571.57. Volume fell to 44m shares from Friday's 56m.

Roundup

THE UNEXPECTED endurance of Manila's recovery was the main feature in the region yesterday. Hong Kong was closed for a holiday.

MANILA built on last week's 15 per cent recovery in the composite index, surprising dealers who had been expecting profit-taking and a downward technical correction. The lull in political strife in the Philippines saw an absence of sellers in the market.

The index rose 32.53, or 3.6 per cent, to 920.51, still below the half-way mark between its June 6 low of 740.31 and its March 21 high of 1,160.70. However, volume fell from 186m pesos to 117m pesos.

SEOUL, conversely, continued a two-week decline with a 17.68-point fall to 756.39, leaving it 7.1 per cent down from the 814.40 of June 4. Volume was thin at 102.8bn won.

South Korea's political climate is uncertain: the National Assembly's extra one-month session, which opened yesterday, is expected to be plagued with inter-party friction; and the Korea Foreign Trade Association has forecast that the nation's trade deficit will reach $5.5bn this year, far wider than the original $2bn projection.

AUSTRALIA firmed slightly as the gold sector recovered some of Friday's 3 per cent fall. The All Ordinaries index rose 3.5 to 1,506.0, and the gold marker gained 17.2 to 1,270.8, as bullion rose by $3.50 to $349.10 on the day. **NEW ZEALAND** was narrowly mixed in quiet trading, the Barclays index rising 1.52 to 1,811.49 after a gain of 39.34 points, or 2.2 per cent, in the previous two sessions.

TAIWAN, by its own volatile standards, staged a modest rebound on bargain-hunting, the weighted index closing 160.61, or 2.7 per cent, higher at 6,016.43.

SOUTH AFRICA

GOLD SHARES recovered slightly after last week's plunge, as the bullion price rebounded. But a stronger financial rand kept a lid on gains. Vaal Reefs rose R4.50 to R266.50, while De Beers put on 60 cents to R83.50.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 18 1990								FRIDAY JUNE 15 1990					DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (80)	138.96	+0.6	120.23	135.01	121.08	118.63	+0.1	5.87	138.17	120.04	134.63	121.62	118.46	158.31	125.85	131.38
Austria (19)	243.46	+0.3	210.65	236.54	212.14	213.06	−0.3	1.27	242.62	210.79	236.42	213.56	213.64	285.63	193.15	121.98
Belgium (61)	150.58	+0.5	130.28	146.28	131.20	128.48	−0.1	4.49	149.79	130.14	145.95	131.84	128.55	160.02	132.11	128.25
Canada (119)	136.60	−1.3	118.19	132.71	119.02	115.98	−1.3	3.52	138.34	120.19	134.80	121.76	117.46	153.61	130.37	139.08
Denmark (33)	260.23	+0.6	225.16	252.83	226.75	226.60	−0.1	1.27	258.60	224.67	251.99	227.62	226.77	260.82	236.69	194.05
Finland (26)	136.41	+1.2	118.03	132.54	118.86	113.65	+0.8	2.41	134.80	117.11	131.36	118.65	112.72	152.29	129.99	141.21
France (125)	156.93	−0.2	135.78	152.45	136.73	138.71	−1.3	2.96	157.30	136.66	153.26	138.44	140.52	168.85	141.69	117.16
West Germany (93)	127.54	+1.9	110.35	123.93	111.13	111.13	+0.9	2.01	125.16	108.74	121.97	110.16	110.16	137.71	122.05	87.45
Hong Kong (48)	132.39	+0.0	114.55	128.63	115.37	132.30	+0.0	4.74	132.36	114.99	128.97	116.51	132.30	132.47	112.24	97.95
Ireland (17)	190.51	+0.5	164.83	185.09	166.00	167.93	−0.7	2.61	189.55	164.68	184.70	166.84	169.10	198.57	172.72	132.94
Italy (96)	108.65	+0.9	94.00	105.55	94.66	99.82	−0.2	2.36	107.71	93.57	104.94	94.80	99.96	108.65	91.85	83.21
Japan (454)	148.98	−0.5	128.90	144.74	129.83	144.74	−0.7	0.58	149.66	130.02	145.83	131.74	145.83	197.26	124.40	170.33
Malaysia (35)	226.18	−0.4	195.70	219.74	197.07	236.20	−0.4	2.29	227.15	197.35	221.33	199.93	237.21	245.32	204.15	179.77
Mexico (13)	504.65	−4.2	436.64	490.30	439.73	1571.13	−4.0	0.33	526.65	457.55	513.17	463.55	1636.16	549.86	324.53	247.51
Netherland (43)	139.47	+0.3	120.68	135.50	121.53	120.09	−0.8	4.69	139.11	120.86	135.55	122.45	121.02	145.66	130.48	118.74
New Zealand (17)	65.99	+0.4	57.10	64.12	57.50	60.15	+0.3	7.37	65.72	57.10	64.04	57.85	59.96	75.36	69.57	65.63
Norway (23)	231.57	−0.9	200.36	224.99	201.78	203.51	−1.2	1.51	233.69	203.03	227.72	205.70	205.94	245.90	202.34	172.66
Singapore (25)	206.72	+0.1	178.86	200.84	180.12	176.04	+0.0	1.92	206.60	179.49	201.31	181.84	176.04	207.93	179.70	159.90
South Africa (60)	175.83	+3.4	152.14	170.83	153.21	151.03	+0.6	3.94	170.00	147.70	165.65	149.63	150.14	251.39	170.00	141.86
Spain (42)	160.77	+0.8	139.11	156.20	140.09	126.12	−0.5	4.22	159.44	138.52	155.37	140.34	126.71	165.19	132.84	149.36
Sweden (34)	214.93	+0.6	185.97	208.82	187.28	193.85	+0.2	2.09	213.70	185.66	208.23	188.10	193.45	217.57	173.89	162.78
Switzerland (66)	103.77	+0.6	89.79	100.83	90.44	91.13	−0.7	2.27	103.17	89.64	100.54	90.82	91.79	104.31	88.75	78.04
United Kingdom (304)	164.44	−0.4	142.28	159.75	143.27	142.28	−0.8	4.76	165.15	143.48	160.91	145.35	143.48	168.11	139.87	137.86
USA (537)	144.40	−1.6	124.94	140.30	125.83	144.40	−1.6	3.36	146.69	127.44	142.94	129.12	146.69	148.65	130.61	131.29
Europe (982)	147.42	+0.3	127.56	143.23	128.46	127.63	−0.6	3.57	147.00	127.71	143.23	129.39	128.25	147.76	135.57	116.46
Nordic (116)	205.80	+0.5	178.06	199.95	179.32	175.17	+0.0	1.72	204.87	177.99	199.63	180.32	175.23	206.93	185.01	158.46
Pacific Basin (659)	147.95	−0.4	128.01	143.75	128.92	143.08	−0.7	0.90	148.55	129.06	144.75	130.75	144.07	192.75	124.63	168.16
Euro−Pacific (1641)	148.13	−0.1	128.17	143.91	129.07	137.34	−0.6	1.98	148.31	128.85	144.50	130.53	138.17	174.18	130.35	146.36
North America (656)	143.83	−1.5	124.45	139.75	125.35	142.51	−1.5	3.37	146.08	126.92	142.36	128.60	144.75	147.87	131.02	131.67
Europe Ex. UK (678)	135.73	+0.8	117.44	131.90	118.30	118.57	−0.2	2.78	134.70	117.02	131.27	118.58	118.86	139.50	124.81	102.81
Pacific Ex. Japan (205)	134.97	+0.3	116.78	131.15	117.61	120.77	+0.1	5.08	134.56	116.91	131.14	118.45	120.68	139.32	122.53	116.09
World Ex. US (1833)	148.22	−0.1	128.25	144.02	129.16	137.12	−0.6	2.05	148.42	128.94	144.63	130.64	137.98	173.77	131.30	146.12
World Ex. UK (2066)	143.92	−0.6	124.52	139.83	125.41	139.12	−1.0	2.24	144.85	125.85	141.15	127.51	140.47	162.00	130.80	140.07
World Ex. So. Af. (2310)	145.55	−0.7	125.93	141.42	126.83	139.31	−1.0	2.49	146.50	127.28	142.77	128.96	140.65	161.84	131.95	139.85
World Ex. Japan (1916)	145.50	−0.7	125.89	141.38	126.80	136.85	−1.1	3.52	146.55	127.32	142.81	129.01	138.30	147.88	134.62	125.55
The World Index (2370)	145.73	−0.6	126.09	141.59	126.98	139.39	−0.9	2.50	146.65	127.41	142.90	129.09	140.72	162.05	132.25	139.86

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Constituent change 18/6/90: Deletion: Tozer Kemsley (UK).Hong Kong market closed June 18.
Amendments to indices for June 15 applied to The Netherlands and related regional indices.

A FINANCIAL TIMES SERIES: Part 7

SECTION III

EUROPEAN FINANCE AND INVESTMENT

WEST GERMANY

Changes are required in West Germany if the best is to be made of opportunities facing a country heading for reunification at a time of economic and political integration in western Europe. Many business practices are not progressive enough to cash in on the situation, **Katharine Campbell** warns

A break with the past

A REUNITED Germany faces profound change as it stands at a crossroads between the collapse of communism in the East and growing economic and political integration in western Europe.

One pressing question, which seems to be insufficiently tackled in Frankfurt banking circles, is how well equipped West Germany is to act as the financial powerhouse to stoke the liberalisation of eastern Europe?

In pure economic terms, there is little question that the robust West German economy is well placed to bank roll the developments in eastern Europe, and particularly in East Germany.

The gross national product in 1989 reached DM2,260bn, while the total wealth of West German households at the end of the year stood at DM2,805bn – about DM45,000 for every man, woman and child.

Bonn has projected 4 per cent growth in the economy this year, included a 1 per cent dividend from East German supply and demand factors, and 3.5 per cent in 1991.

Inflation is well below 3 per cent, and the D-Mark is generally strong.

But the process of adjustment, as the dilapidated East German economy limps along the treacherous road towards integration with the west, will be fraught with dangers.

This process is looming large with the start of monetary and social union from the beginning of July.

Estimates of the price of rebuilding East Germany have become almost meaninglessly large and the steep rise in government bond yields demonstrates that development capital will not come cheap.

Modern and efficient capital markets, to smoothly transfer funds from official and private sources, will be crucial in inspiring international confidence.

In this field, Germany still lags well behind other leading financial centres.

For example, even after the fundamental revalnation that has occurred in the stock market since the Berlin Wall was breached last November, its overall capitalisation still only represents 5 per cent of world total.

This seems absurdly out of kilter with the nation's industrial might.

Price movements in the government bond market are watched, not in Frankfurt, but in the London futures markets.

And in spite of an increasingly international veneer, some business practices in Frankfurt remain surprisingly provincial.

There is still no insider trading regulation for instance and "Chinese walls" between proprietary and client trading are lacking in most bank dealing rooms.

The DG bank fiasco, which revealed a special case of internal management chaos, also demonstrated that certain rules, observed as a matter of course elsewhere, such as taping dealers' phone conversations, are far from automatic. The host of economic and psychological uncertainties could also serve to reinforce old defensive attitudes in the next few years, slowing up the process of liberalisation.

Long before the political upheavals of recent months, Mr Karl Otto Pöhl, president of the Bundesbank, made an important speech which characterised the central bank's increasingly proactive thinking about the promotion of West German financial markets.

"From the discussions about what must be changed in (the Federal Republic) . . . I sometimes get the impression with us the question is phrased the opposite way around: How can the status quo be maintained, at any price?" he said.

Institutional changes seems to be done half-heartedly, and are quite often not welcomed. The steep rise in the Government's projected borrowing programme will necessitate alterations to antiquated issuing procedures. Experiments with a part auction system are already under way.

The need for more open thinking and the pressures of conformity give some institutions difficulty with their European-wide ambitions

But resistance to bypassing the highly profitable, but not always efficient bond consortium, is formidable. Again, the internationalisation of certain markets is sometimes frowned on as a loss of control. The London futures market has made cash government bond trading a little too lively for some tastes.

"We're losing interest in the bund future," a Hamburg central banker says, "because we feel we cannot control the market any more."

The tensions between the need for more open thinking and the pressures of conformity and tradition give some institutions difficulty with their Europe-wide ambitions in relation to their domestic position.

Developments in East Germany, at least in the next few years, are likely to reinforce existing structures. One small but pertinent example. Bankers are hoping that the abolition of turnover tax at the beginning of next year will be the cue, finally, for the development of a short-term money market, curiously absent to date. Yet one important prerequisite is that minimum reserve requirements should be lifted on term deposits.

While the Bundesbank is acutely aware that the reserve requirements represent a direct subsidy to offshore centres, notably Luxembourg, any relaxation would be regarded as giving false signals to the market.

At a time when the Bundesbank is fighting to establish its authority over the East German economy, and is also anxiously watching the increasing use of the D-Mark throughout eastern Europe, it is highly unlikely to give any ground on one of its most cherished tools of monetary policy.

Psychologically, the next few years are unlikely to be a period of great experimentation. Germany, for instance, still largely lacks an equity culture, and a period of potentially disruptive change is not a very promising breeding ground.

It has been foreign, not domestic investors who have largely been responsible for more than doubling stock exchange turnover this year compared with last.

Indeed, German investors, unsettled by the mini crash last October, were net sellers in the final quarter of 1989, just as the market was entering a phase of record growth.

Almost 25 per cent of private household savings are still lodged in traditional low interest savings accounts; only 6.6 per cent are invested in shares.

East Germans will not be encouraged to invest their meagre savings in the stock market; nor are a host of East German firms, struggling for survival in the rigours of a market economy going to significantly swell the ranks of listed stocks.

Geographically, the West German financial centre is likely to stay in Frankfurt, rather than move to Berlin as the capital of a reunified Germany. The infrastructure is in place. It would take years to recreate in cramped Berlin.

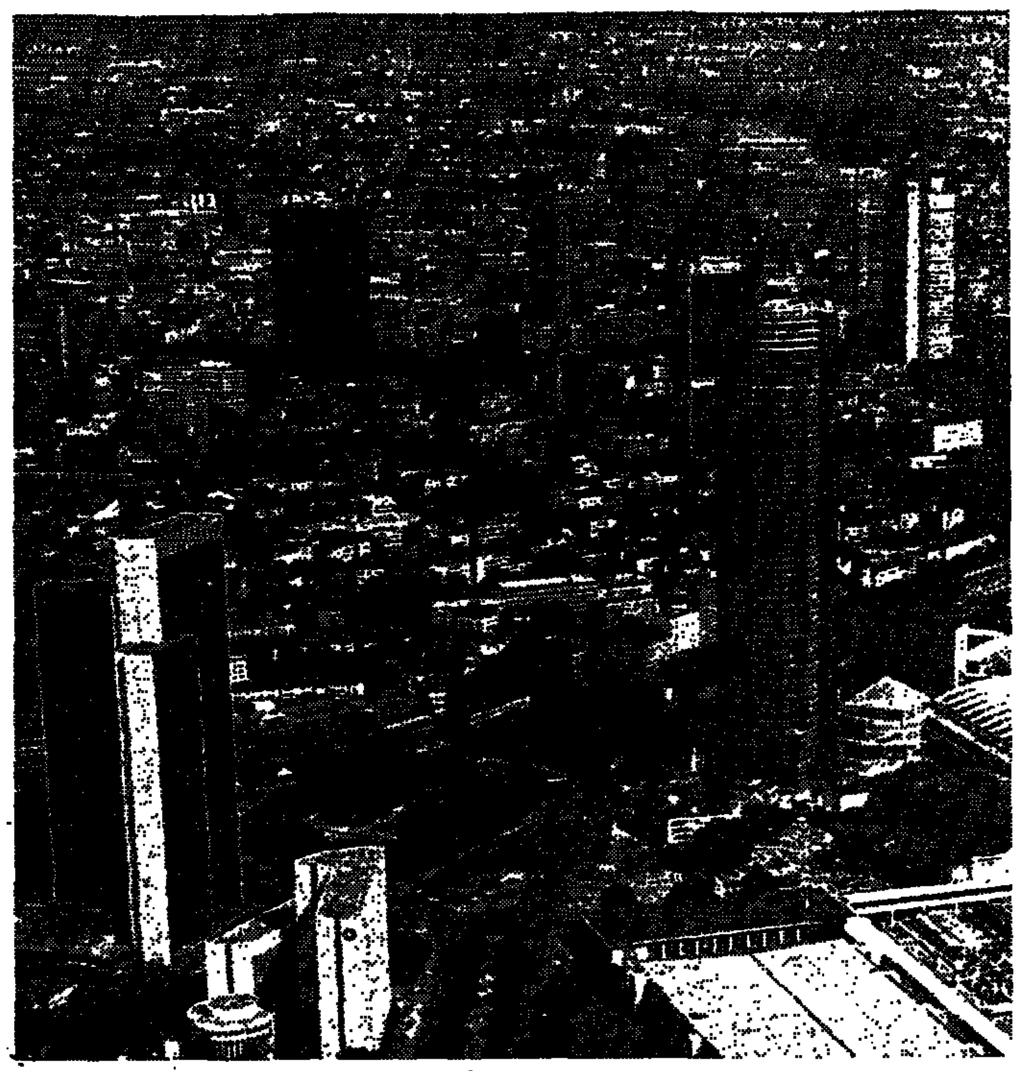
Political sensibilities generally rule out locating the Eurofed as a future nerve centre of EC finance in Berlin.

The West Germans have not only firmly set their sights on luring the future European central bank to Frankfurt, they have even earmarked a building for it.

The former home of the pre-1945 chemical conglomerate IG Farben in north-west Frankfurt may soon be abandoned by 60,000 American army officers. The rambling old building is capable of accommodating a large number of central bankers.

This progression has a symbolic relation to the historic political and economic changes engulfing Europe in general, and particularly Germany.

But for any of it to benefit Germany, attitudes will have to shift. If not, the West German financial market place will fail to make the most of the opportunities which it so fortuitously faces.



Commercial might: Europe's tallest office building, the Messeturm, with 55 storeys at 254m, is the latest addition to the banking district in Frankfurt, West Germany's financial centre

IN THIS SURVEY

Editorial production: Tania Bawden

FIXED INCOME

Savings in big demand

THE TALK on West Germany's capital markets is dominated by one thing: how the redevelopment of East Germany is to be financed after unification.

Most bankers in Frankfurt argue that Germany will be able to take the financial strain with ease in spite of a historic rise in short term interest rates and a decline in bond values sparked by inflationary fears over reunification.

The Bundesbank has one main argument. It argues that West German savings, at DM150bn a year, are running at a rate of about DM100bn a year more than is required to finance German companies.

This excess is expected go a long way to meet the needs of East Germany, which is estimated by different sources to need between DM500-800bn over the next 10 years.

International demand for German savings, however, means that interest rates will remain high as competition mounts for investment capital.

The picture will become clearer this summer as East Germans are given DM100bn in return for their savings.

If they save the money, part of the redevelopment cost will be covered, but if they spend it, inflation could edge up; although the Bundesbank points to the country's current account surplus of DM100bn which could soak up East German demand with ease.

The redevelopment funds will be raised through issues of the German Unity Fund, with the Bundesbank acting as agent. The Bundesbank already handles about eight issues a year, and says it can comfortably replace one or more of these with a unity fund issue, with its federal republic guarantee, as needed.

The unity fund will help to focus attention on an aspect of the government bond market which is ripe for change – the procedure for new issues.

A number of banks take part in a consortium through which they are allocated a fixed quota each time an issue takes place.

This has been slightly relaxed to allow 20 per cent of each issue to go to foreign banks. But the Bundesbank wants more change.

Earlier this year, it experimented with a tender system for floating rate issues and is preparing to try its first tender for fixed rate bonds. No timetable has been announced for the first issue, but the bank expects to use it as a mainstay of its issuing procedures if it is successful.

The consortium will not disappear overnight. The Bundesbank seems acutely aware of its historical reliance on this system. Its first small issue of DM50m in 1951 would have failed had the banks not grudgingly agreed to the consortium. It says there is room for a mixed system involving both the consortium and tendering, with a further outlet in a tap system.

One factor which is likely to change, however, is the rule under which fees paid to consortium banks are clawed back if bonds they have been allocated are bought back by the Bundesbank within a year of issue: a sign of their failure to successfully place the bonds.

This is expected to lead to new and lower fees for consortium members.

Meanwhile, sales in the commercial bond market have recovered after the disastrous effect of the short-lived 10 per cent withholding tax which was abolished last summer.

Sales of domestic bonds rose last year to DM78.5m from a low DM35bn in 1988.

Strong lending growth encouraged banks to have a lot to do with this. After redeeming DM11bn worth of their bonds in 1988, they issued a net DM52.5bn last year.

A plan to end the need for companies to obtain approval before making domestic bond issues, although not affecting banks, could encourage more industrial companies to issue bonds in the domestic bond market rather than resorting to the Euromarket.

The increase in D-Mark interest rates last autumn ate into bond values, but the damage to the banks' massive bond portfolios is not easy to judge.

The Bundesbank argues that West German savings are running at about DM100bn a year more than is required by German companies

Since their investments are carried at cost, rather than market value, a downturn is only noticeable to the extent that it takes current values below cost. That meant reported write-downs of only DM200m or less for the big banks.

Also damaging for the banks was the fact that bond trading crept up just 4 per cent during the year, to DM1,916bn – although the leap in equity trading made up for what would otherwise have been a lacklustre performance on commissions.

The different growth rates of bond and share trading were significant. Equities' share of total trading jumped from 28 per cent to 42 per cent in a market traditionally dominated by fixed income securities.

● Meanwhile, expectations are high that Germany will soon acquire a short term money market. Bankers say two changes will cause this.

The first is the abolition of the stock exchange turnover tax at the start of next year.

The tax has reduced demand for money market instruments like certificates of deposit and floating rate notes and has effectively prevented their issue.

The second change is the abolition of the 4.95 per cent minimum reserve on time deposits which makes money market rates unattractive.

Without this change, the Bundesbank will simply encourage the growth of an off-shore D-Mark money market. But the Bundesbank is offering no hope of an early relaxation of the reserve requirements.

It agrees that national monetary conditions become increasingly difficult to control as borders come down in western Europe, but says that this is an argument for Europe-wide agreement on credit policy, not relaxing internal monetary constraints.

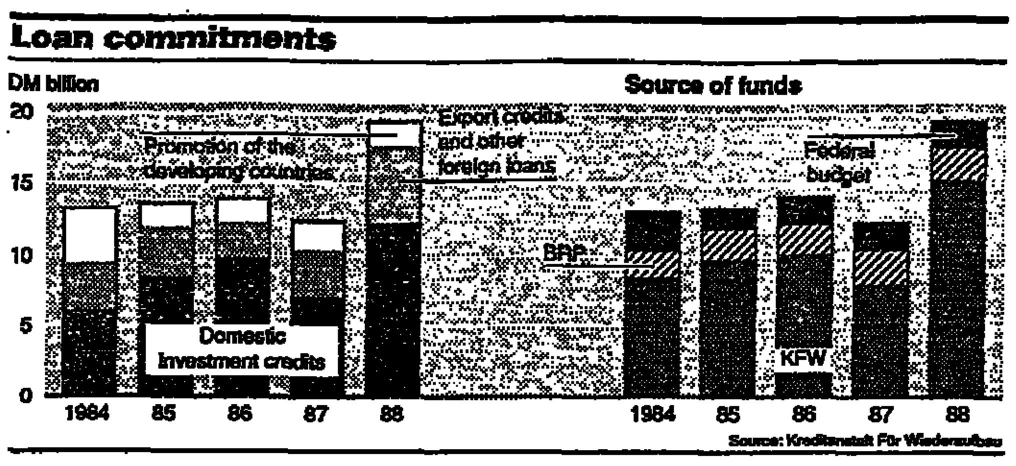
It says minimum reserves will stay until this agreement is reached. Bankers say this position may soon change.

They say the Bundesbank is merely trying not to give markets the impression that it is loosening credit policy while interest rates are high. When interest rates fall, a change may be considered.

However, given the noises coming from the Bundesbank, this may be largely wishful thinking.

Richard Waters

Loan commitments



Source: Kreditanstalt Für Wiederaufbau

Reunification has restored the role of Bonn's development bank

A bank for all seasons

THE TURN of events in East Germany has seen the Kreditanstalt für Wiederaufbau (KfW) bank come into its own.

The "loan corporation for reconstruction" has again found its lengthy name highly descriptive of its purpose.

Set up in 1948 by Hermann Josef Abs, the grandfather of modern German banking, it served as the prime conduit for Marshall Plan aid to rebuild war-torn West Germany.

Now the KfW is channelling official funds earmarked for the creation of a flourishing private sector across the eastern border.

However, the KfW is keen to stress that its new role is very much an extension of existing activities, and that the estimated DM50bn in long-term loans it will extend to various sectors of the East German economy in the next three to five years will not involve significant new risks for the bank or its bond holders.

KfW officers have been besieged by applications from East German enterprises for the first round of money allocated by Bonn earlier this year.

They are busily approving loans destined to nascent private enterprises, ranging from a tailor requiring a DM2,000 sewing machine, to an organ builder in Saxony wishing to repurchase the family firm appropriated years ago by the state.

Mr Gerhard Göette, one of five managing board members, says the bank has been overwhelmed by initial demand for what was originally intended as a four-year programme.

It had to stop distributing the much-needed funds for five weeks from mid-April while it persuaded Bonn to bring forward the entire DM6bn for distribution this year.

The KfW's unusual role is partly due to its hybrid structure. Its DM119bn balance sheet makes it one of the largest banks in the country, yet it comes under the aegis of the Ministry of Finance, not the banking regulators, and pays no taxes and no dividends.

Its 950 staff are concentrated in a single complex overlooking the leafy botanical gardens in Frankfurt, with only a temporary representative office in East Berlin.

It needs no branches because the KfW largely relies on the commercial banking network to solicit applications and later distribute and service some 30,000-40,000 credits extended each year.

The bank receives only a proportion of its funding from Bonn, and hence regularly taps both the domestic, and increasingly, the international capital markets, issuing paper that carries a federal government guarantee.

"This is the only paper you can buy denominated in yen or Swiss francs that carries the guarantee of the bund," remarks Mr Gerhard Lewark, treasurer of the KfW.

This year he will manage a borrowing programme estimated at between DM16 and DM17bn.

Officials say the development bank's work abroad will not be disrupted by the events in East Germany.

Last year KfW distributed federal government loans and grants worth DM3.3bn to developing countries. A further DM5.6bn went in export loans for German suppliers to the underdeveloped world, particularly in shipping and aircraft (notably Airbus).

Within Germany, one of the biggest programmes has been support for small and medium-sized companies, enhancing the international competitiveness of the so-called "Mittelstand" at the core of the German economic machine.

Last year DM7.3bn worth of credits went in this direction, and the extension of the programme to East Germany will mean a considerably higher figure this year.

The Mittelstand loans were not funded by the KfW, but through the so-called European Recovery Program Special Fund (ERP).

With total assets of more than DM20bn in 1989, the fund is an extension of Marshall Plan aid, which, as well as providing foreign exchange for German-US trade straight after the war, also promoted long-term capital investment.

German firms had to pay the D-Mark equivalent of the trade support they received into this fund, which became a separate German legal entity in 1953.

Entirely independent from the federal budget, this base, supplemented by modest levels of capital market borrowing, continues to be used for the reconstruction and promotion of the West and now pan-German economy.

One of Bonn's first contributions to financing East German reconstruction was to approve an additional DM6bn for the ERP programme. More than half goes to the KfW to distribute, and the bank says it has approved about 6,000 applications, worth DM750m, mostly directly to East German enterprises, but a proportion for West German firms with plans across the border.

The pressing demand for funds has meant that, for the moment, only firms with a yearly turnover under DM50m will qualify for the loans at the subsidised rate of 7.5 per cent.

But a little goes a long way, according to KfW economists who reckon that every DM1m investment produces as many as 22 new jobs in the fledgling East German economy.

The Frankfurt staff has been busily training workers in East German savings and co-operative banks in the basics of distributing the funds, but one KfW official lamented that, hampered by the still-creaking bureaucracy, applicants were not getting their money quickly enough.

While the credit risk for these D-Mark denominated loans formally lies with East German banks, KfW also secured full guarantees from the primary West German institutes, the Deutsche Genossenschaftsbank, responsible for the co-operative banks, and the Deutsche Girozentrale for the savings institutions.

As soon as West German banks receive licences to operate across the border, they will also be involved in the programme.

The bank has also been trying to extract from Bonn funds for the state enterprises which, following monetary union, will face severe liquidity shortages.

The bank does not wish to directly assume the risk, and is looking for a capital increase or some form of federal guarantee for a sum of at least DM6bn.

East German involvement will not, at least this year, involve the bank in a higher funding programme.

Discussions are already under way, although officials are waiting on such crucial tools as opening D-Mark balance sheets following currency union before the money can actually begin to flow.

Rated AAA by both rating agencies, KfW still has to pay a premium for its relative obscurity on the international stage.

Its East German involvement, rightly or wrongly, will not make its marketing task any easier.

Katharine Campbell

KEY FACTS

Area	248.6 (thousand sq km)
Population	61,149,000
Head of State	Richard von Weizsächer
Currency	100 Pfennig = 1 D-Mark
Average Exch Rate	1.88 DM per US$

ECONOMY

	1988	1989
Total GDP (US$ bn)	1,067.23	1,147 06
Real GDP growth	3.6%	4.0%
GNP per capita	20,311	N.A.
Exports F.O.B.	308.19	324.48
Imports F.O.B.	228.78	247.77
Trade Balance	79.41	76.71
Current Account Balance	50.43	55.45
Inflation	4.2%	3.9%
Total reserves minus gold (US$ bn)	58.528	60.709
Gold reserves (US$ bn)	7 690	8.063
Unemployment	7.4%	7.0
Budget Deficit as % of GDP	1 8%	0.72%
Personal savings ratio	13.92%	13.55%

Source: IMF, Economist Intelligence Unit, Datastream

State banking: East Germans are accustomed to queueing to use their savings accounts

West German banks are rushing into East Germany

Rebuilding a sector

THE WEST German banks are jockeying for positions with the reconstruction of the East German banking system.

A sign of the times is the move by Bundesbank, the West German central bank, into the headquarters of the pre-1945 Reichsbank in East Berlin.

The old communist state monopoly is crumbling and its constituent parts are being eagerly absorbed by western banks. So the foundations are being laid for an extension of the West German system on the other side of the border.

Banking in communist East Germany was a very simple matter. The country's savings were collected, largely through the network of 196 savings banks which paid a virtually uniform rate of 3.25 per cent.

Credits were then distributed, almost exclusively to industry, via the Staatsbank (state bank), at a cost of between 4-5 per cent.

Almost every bank in West Germany wants to be represented across the border. For starters, the market promises about 16m new retail accounts: an additional 25 per cent of the domestic market. Leipzig alone is processing 100 or more applications for banking licences.

Several big banks say they are aiming for a market share generally equivalent to their strength at home, but it is clear their expectations are higher.

Indeed, the fight for customers has already begun with a vengeance.

Both Dresdner Bank and Commerzbank, West Germany's second and third largest banks, have announced they will run their customers' current accounts free of charge for the first year. The country's largest bank, the Deutsche Bank, has not yet made any announcements in this area. An outstanding danger is that this sort of competition on the loan side could lead to sizeable losses in a place where credit assessment will inevitably be rudimentary, to say the least, for the time being.

As the big banks jockey for position, various strategies have been considered.

In order to speed up establishment, the banks have shown inevitable preference to be associated with an existing institution.

As its competitors note, with an air of *déjà vu*, Deutsche Bank has managed to muscle its way in to pick off what appears to be the cream of the Deutsche Kreditbank branches – in number about 118 of the 170.

Deutsche has cannily set up a joint venture with the Kreditbank, the commercial part of the old Staatsbank, hence neatly avoiding responsibility for some DM130bn worth of corporate credits which remain, for the present, on the East German bank's balance sheet.

It has instead acquired branches in strategic locations – when office space, even of the lowest quality, is almost impossible to come by – and staff, some of whom will have useful contacts.

Dresdner Bank is also negotiating with Kreditbank, and says it will probably take over at least 60 branches from the old network, with an emphasis on the Dresden region.

The old foreign trade bank, on the other hand, has responded to the overtures of Westdeutsche Landesbank, the largest regional public sector institution, to create the Deutsche Industrie-und Handelsbank (DIHB), a 50-50 joint venture. It will engage in export finance throughout eastern Europe, as well as corporate and local authority lending in East Germany.

WestLB, which had been starting to build its own network, will operate out of DIHB and its existing offices.

Meanwhile, Commerzbank is making the best of its independent strategy, solving the problem of lack of buildings in places by operating, at least for a while, out of large containers ("very respectable two-storey ones," according to one rather defensive official).

Its staff say in private that they are so able to avoid any taint of the old regime.

The most immediate, and certainly least enviable, task falls to the savings banks, which, with about 80 per cent of the country's savings accounts, are not equipped to deal with the mammoth task of converting 12m or so accounts from East Marks into D-Marks.

Hundreds of East Germans, well practised in queuing, are again lining up to place their applications for the prized D-Marks that will be legal tender from July 2.

West Germany's savings banks, although prevented by law from operating outside their own regions, are sending personnel and some of the basics in office equipment, both to help in the short term problem, and to provide longer-term assistance to their sister institutions.

For many months, banking business in East Germany will largely be a question of "flying blind." Even basic information is not available.

For example, as Deutsche discovered that the Kreditbank does not know how many branches it has. Manifold legal uncertainties persist, most notably in the area of property rights. The Staatsbank in East Berlin, for instance, is not sure who owns the building inhabited by Dresdner before the war.

In the midst of such uncertainty, credit institutions will be under pressure to provide liquidity for companies for which there may be no balance sheet. The worth of their assets as security or otherwise will be unknown, and so their prospects in a market economy will be subject to guess-work.

It will be an uncomfortable market in which to be battling for market share.

Katharine Campbell

Richard Waters on the share market's struggle to gain ground

Foreigners force changes

IN SPITE of the leap in turnover in German equities last year, the country has not turned into a nation of shareholders overnight.

Last year, private sector savings topped DM150bn, but only about DM10bn, either directly or indirectly, reached the equity market.

Both the demand for and supply of equities remain slight relative to the size of the German economy. Institutional interest is meagre, and shows little sign of picking up.

Insurance companies, a mainstay of the equity market in other countries, have just 5 per cent of their assets in shares. They are allowed a 10 per cent ceiling.

Company pension funds, already reduced in importance due to the high level of benefits under the social security system, remain locked in companies' balance sheets. Many say this pension fund money, reckoned at DM200-300bn, could transform the equity market. But little change is likely without alteration of the tax system.

With high rates of corporation tax, and an accelerated writing-down allowance for capital investment, it makes sense for companies to retain money rather than invest it in the capital markets.

That may look inefficient to an Anglo-Saxon mind, which is trained to believe that capital should freely flow to wherever it can be used most efficiently.

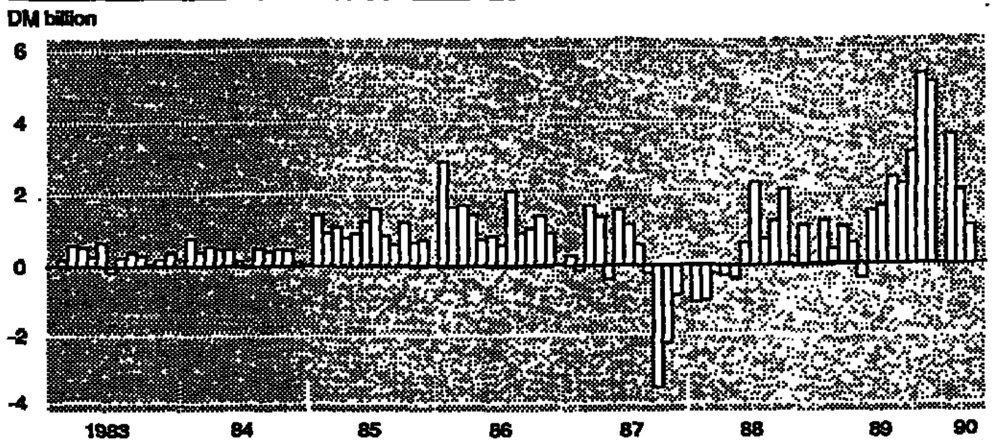
Many Germans, however, point to the successful investment record of their companies – DM400bn last year, 90 per cent of it funded internally.

This financing pattern, established after the Second World War, when almost the only funds available to a company were those it generated itself, shows no signs of being broken. It is supplemented by an older and equally entrenched pattern – that of the long-term financing provided by German banks.

Without local institutional money, the equity market is frequently driven by foreign institutions – as happened in the strong bull run which began last autumn.

Foreign institutions invested a net DM26bn in 1989; two thirds came in the last three months of the year due to hopes of German unification.

Net foreign investment in German shares



Source: Metzler Research

German shareowners, in contrast, were selling to the tune of DM18bn. This was in part due to loss of confidence over last October's mini-crash, in which the German stock market fared worse than most.

But the reliance on foreign money makes Germans nervous. Foreigners were net sellers of German shares in the 1987 stock market crash, proving that this money can move out as quickly as it moves in.

German intermediaries are looking to private investors, hoping for an increase in the 3-5 per cent of personal wealth traditionally held in equities.

Many point to the wave of inheritance that is washing across the country. As the post-war generation passes on, hard-earned, cautiously invested money is being left to a new generation.

These people, according to the popular view, will take greater risks with their money than their parents. The equity and derivatives market could benefit as a result.

Yet there is little evidence to date to support this widely-propounded theory. According to Mr Ulrich Ramm, economist at Commerzbank: "It's more an expectation than a reality at the moment."

Two factors could boost demand for German shares.

According to Ms Ute Geipel, head of investment management at Citibank in Frankfurt, mutual funds, which have little of their DM120bn invested in equities, are set to change their investment habits as products from other EC countries become locally available.

Competition is likely to provoke the sort of performance comparisons between funds that has hardly been seen before, forcing German funds to move away from the safe but unexciting fixed income markets they tend to use.

The second boost could come at the start of next year with the end of stock exchange turnover tax. This is a quarter of a per cent each time a share is bought or sold.

While local demand for equities remains slight, the supply has yet to pick up. At the end of 1989, there were only 316 listed companies in Frankfurt, the largest of the eight exchanges. During the year, 26 companies went public – a sign of growing interest in equity finance, but hardly a rush given the pool of 400,000 private companies which form the backbone of the economy.

Growth in equity investment is therefore likely to be slow. But as it develops, the glacial shift of power within the financial system towards shareholders, traditionally second-class citizens of the financial scene, should pick up momentum.

One of the most obvious restrictions on shareholders' rights has been the ceiling placed by many companies on voting rights. Deutsche Bank has declared its opposition to such restrictions – a move which Dresdner at least has supported. This may seem ironic, given restrictions placed on Deutsche's own shareholders and Dresdner's attempts this year (they were blocked by a court) to limit any individual shareholder's votes. However, it is a sign that attitudes at the banks are at least changing.

The number of companies with such restrictions is difficult to gauge.

According to a survey by Baring Securities, it is more than half, although others put the proportion much lower.

What is clear that it would be hard to gain control of a company by hostile means, since many of those without voting rights have shareholders who control a blocking interest of more than a quarter of their shares.

Without a free market for corporate control, shareholders lack the ultimate sanction of selling to a competitive bidder.

Many expect shareholder power to increase, with the concomitant rise in contest takeovers.

According to Mr Barthold von Ribbentrop, executive in charge of Deutsche Bank's investment department, it is the power of foreign institutions in the German equity market that is forcing these changes.

German financiers seem to accept that the changes are necessary if the country is to build a thriving equity market. But many doubt that such moves will reinforce the financing system in the long run.

BANK RESERVES

A strength test

GERMANY'S big universal banks are busy flexing their muscles in preparation for the new decade, boasting of their capital in the way a strong man shows his pectorals on the beach. But these muscle-bound hulks have yet to convince that they are as agile as they are strong.

The true strength of German banks' balance sheets is not easy to see, thanks to their copious hidden reserves.

The curtains have been pulled back slightly in the past year, as the banks put a value on their huge portfolios of industrial holdings. But this is only a tantalising glimpse of their true capitalisation.

The size of the banks' equity holdings, which do not include investments in banking businesses, and the "secret reserves" to which they give rise, can be seen in the table (right). The scale of the reserves, estimated by Thomas Albrecht, of UBS Phillips & Drew in London, indicates what the banks have previously kept hidden.

However, the banks are still silent on the value of their property holdings. According to Mr Ulrich Ramm, chief economist at Commerzbank, his bank's property could be worth several times the DM1bn which appears in the accounts.

These assets underpin the banks' share prices, although with capital gains charged at the corporation tax rate of 53 per cent, they are not readily realisable.

While capital remains strong, the banks' margins are suffering a prolonged squeeze.

It is the ability to resist this erosion of margins – and expand abroad in pursuit of profitable opportunities – that will determine which of the banks emerge as winners in the next few years.

The squeeze on lending margins last year was due in part to the gradual loss of cheap savings deposits. These are becoming more difficult to retain as savers begin to realise that there are better deals around than the traditional savings accounts which pay 3 per cent interest a year.

Industrial holdings of leading German banks (DMbn)

Bank	Market value	Book value#	Secret reserve
Deutsche	22.6	3.0	19.6
Dresdner (est)	12.0	3.7	8.3
Commerzbank	3.9	1.0	2.9

Est. max. carrying value of holdings in banks' balance sheets

Source: Thomas Albrecht, UBS Phillips & Drew

Last year, a net DM45bn was withdrawn from such accounts, with half as much again in the first quarter of this year.

This shift is forcing the banks to reconsider their branch structures. According to Dresdner, the real cost of savings deposits is probably 6 per cent, due to the cost of collecting funds through the banks' 1000-plus branch network. As cheap deposits evaporate, the banks will be under pressure to reduce their retail cost bases.

According to Mr Gerhard Eberstadt, a leading main board director of Dresdner: "We will need less branches. The number will be substantially lower in the next two years."

Money is not just flowing into accounts that pay higher rates of interest. More savings are flowing into the securities markets and, as the single European market draws near, the banks are acutely aware of the range of more sophisticated investment management "products" which is likely to be launched on the German market.

The famed caution of German investors, fuelled in part by the banks, which have benefited from cheap savings, may soon become a thing of the past.

The channelling of savings outside the banking system is forcing a structural change in the financial sector. This was most clearly seen last year as the banks, unwilling to lose their role as intermediaries to the nation's savings, began a move into the life assurance market through acquisition or start-up.

The banks have also been focusing on the sort of fee and commission-earning business which does not come near their balance sheets.

As one leading banker explains: "In the loan business, the margins are so low that it is more profitable for us to offer capital market transactions." He adds: "Securitisation in Germany only took place because you made no money on loans."

This is a claim that would be startling anywhere else in the world, but is entirely understandable in a country where the banks are seen, and see themselves, as the linchpin of the financial system.

Commission income did much to enhance the banks' earning last year. But for institutional business at least, commission rates are now under pressure. The traditional 0.5 per cent on share transactions has been under pressure, with rates increasingly coming into line with those prevailing internationally – a result in part of the fact that the dominant institutional investors in Germany are foreign ones.

The banks are able to resist this up to a point, thanks to the large amount of retail interest in securities, mainly bonds.

The ambitions of the banks to expand beyond the confines of their balance sheets are clearly illustrated by BHF, a small universal bank. BHF sees no value in bidding for a bigger share of corporate lending or big capital market transactions, where margins are wafer-thin. Instead, it has its sights set on international expansion in investment management and corporate finance.

These are the two businesses on every German bankers' lips at present. Not surprisingly, there is an unspoken but clear envy at Deutsche Bank's decision last year to buy its way into both areas through its acquisition of Morgan Grenfell.

These changes are shifting the static structures and cultures of the universal banks. Two developments make this clear. One is the way the banks, as they add new businesses, are becoming financial holding companies running a series of subsidiaries, rather than operating as integrated units.

The structure of their universal banking cores is not in question, although at least one big bank admits to culture clashes between its investment and commercial bankers, sparked by envy over salary levels.

As the banks expand to countries where the universal banking culture is less developed, it is questionable whether they will be willing or able to export this approach.

The second notable development is some of the banks' willingness to reduce their industrial holdings, often taken to be the outward sign of their strong corporate relationships. Banks like Commerzbank and Dresdner are open about their intention to reduce their holdings to no more than 10 per cent, in part to defuse the politically sensitive issue of the banks' power in the German economy.

Richard Waters

Katharine Campbell weighs up Frankfurt as a business centre

Banking on better service

FOREIGN REAL estate developers with an eye on the lucrative Frankfurt market often schedule an appointment at the Bundesbank at the beginning of the week.

Conventional wisdom has it, namely, that the if the West German central bank moves to Berlin as the capital of a reunified Germany, then then commercial banking sector will relinquish its glossy towers and dutifully follow.

Still, the requisite call seems to provide the answer that, at least for the foreseeable future, the Bundesbank will stay put.

Consequently, visiting financiers, much as they might be drawn to the bright lights of Berlin, will have to reconcile themselves to the fact that their business will continue to necessitate a trip to Frankfurt.

This is not necessarily a disaster. Frankfurt is in many ways an attractive place, although generally maligned by the international community, and particularly by travellers who remember the rather dismal town of the 1970s or before.

It is admittedly small with a population of just 600,000.

Residents point out as many as 50,000 people are employed in the financial services sector: roughly the number of jobs lost in the City of London in the aftermath of the stockmarket crash.

Its manageable size, at least for the slightly jaded business traveller, can be a delight.

Almost all appointments, except with the Bundesbank which is located 15 minutes from Frankfurt at Ginnheim, are within walking distance in the leafy – and seemingly suburban – west-end business district. The public transport network, if needed, makes up in efficiency and comfort what the municipal planning plan lacks in the town's one-way street "system."

Almost flattened in the Second World War, Frankfurt has not been restored with the loving precision lavished on many German towns. Instead, its skyline, best seen on the ride in from the airport, gives an impression of an American city. This helped the latest architectural addition, the Messeturm, designed by Chicago architect Helmut Jahn.

The town has plenty of good (if monotonously Italian) restaurants, and boasts one of the highest per capita expenditures on "culture" in the country. In Germany, that is a lot of money well spent.

But Chicago or New York it is not. Indeed the comparison would not even come to mind were it not for the mayor's flourishing rhetoric.

One is probably expected to sit up and take note when Mr Volker Hauff boldly announces: "What New York is to the United States, Frankfurt shall be for our country, for Europe."

"And New York shows," he goes on, "that this internationalism consists not only of money, the economy ... but also of culture ... great liberalism, living art ... Applying the breaks, being stubborn, hesitating – that is not my thing."

In economic and commercial terms, Frankfurt's ambitions to be a leading international financial centre are being fulfilled. Many barriers are falling, and as the international community grows, provincial attitudes come under assault daily.

Yet the tolerance, flexibility and hence diversity which make up a leading international centre – in daily life, not just business – are still largely missing. It is the sort of mentality that leads politicians and burghers to enthusiastically talk of cleaning up what

Commercial banks: well established in Frankfurt

must be one of the tamest red light districts in the world.

One of the essential prerequisites of a flourishing financial metropolis must surely be a strong supporting service industry. Curiously, Germany, in popular myth the most efficient country in the world, is decades behind when it comes to this service.

It is strange that its citizens, who demand high standards at all levels, from street cleanliness to high performance cars, should put up with it.

Start with communications. One does not yet expect to easily to reach East Germany by telephone, but connections to the west are faulty too.

The business visitor may be surprised to find that he or she cannot, under any circumstance, make a collect call into, or indeed out of, the country.

Germany has not signed the international agreement on reverse charge telephone calls. Could it be a legacy of the enduring national suspicion of credit?

Then, as is well known, the shops shut by Saturday afternoon, in Frankfurt as elsewhere, until Monday morning – unless you are prepared to eat flowers!

Eating out is not necessarily the answer. A large number of restaurants are mysteriously closed when custom is likely to be liveliest: on Saturday evenings and public holidays.

One could even conclude that the powerful unions are for once helping to buttress the authorities' anti-inflationary stance – price control is easier if people cannot readily spend money. Even the banks seem to play an important role by closing for an hour or two every lunchtime, thereby inhibiting access to ready cash.

This leisurely approach extends to business, where a demeanour often bordering on inflexibility sharply distinguishes Frankfurt and the rest of Germany from first-tier financial centres.

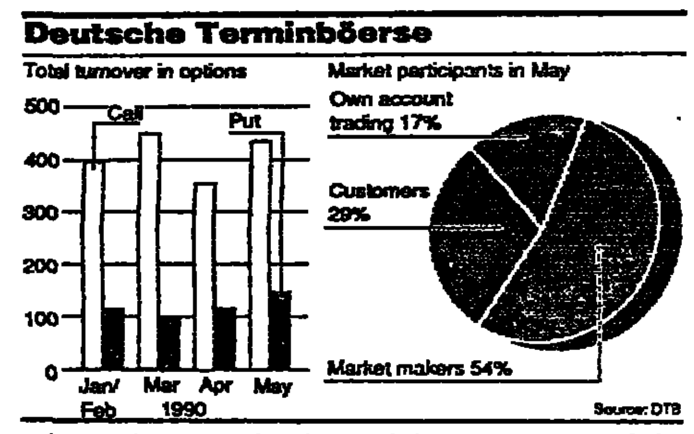
The recent struggle to extend by 60 minutes the Frankfurt stock exchange opening hours, to three from two hours, was no doubt a trifle puzzling to workaholic Wall Street or City traders.

It is often with a hint of irritation that telephone receptionists will inform a caller late or even mid afternoon on Friday (and not necessarily just Friday) that "wir haben doch Feierabend." Literally translated this means: "but don't you see we are having a celebration evening?" In fact, this is just German for "everyone has gone home."

Travellers cannot rely on catching up on their schedule by jumping in a taxi. They generally need to be hauled by telephone.

DERIVATIVES TRADING

A call for support



TWO YEARS is a long time in the futures business.

About two years ago Mr Rolf Breuer, Deutsche Bank's securities supremo, assured Liffe that his bank would never trade a D-Mark bond on the London futures exchange.

Last month, however, it was officials of the new domestic Deutsche Terminböerse (DTB) whom Mr Breuer, now chairman of the German exchange, upset.

He told them that Deutsche, which in the meantime has set up its own pit-trading operation on the London floor, would continue to trade the flourishing Liffe bund (10-year government bond futures) contract after the DTB finally launches its rival, a virtually look-alike product, at the beginning of September.

Competition will be cutthroat and the fate of the contract could make or break the neophyte exchange in international terms. The DTB is therefore inevitably counting on German banks to bring the bulk of their business back to Frankfurt.

As the largest bank, Deutsche's moves are particularly significant.

Four months after its inception, the DTB electronic mart, which trades options on 14 blue chip German equities, has clocked up better-than-expected volumes – a daily average of 24,000 lots, compared with the deliberately cautious estimates of 15,000 contracts.

It has weathered a few systems failures quite well, and has detected its first case of manipulation. But it still has to soundly convince its international audience that it is an attractive place to do business.

It is a "tiny tot, a dwarf," says Mr Breuer, who clearly believes sharp words are the best tonic. Another official, from an American house in Frankfurt, adds: "One has to ask oneself what those market-makers are doing all day."

But market-making, let alone options technology, is new to the German market, and the will to create a sophisticated financial centre is also relatively young.

The intense conservatism that characterises the local marketplace put Germany years behind its European competitors in starting a derivatives exchange.

The same attitude makes participants slower in warming to novel techniques, in contrast, for example, to the French who wholeheartedly embraced derivatives with a speed that unsettles onlookers from London.

One of the largest broking houses on the Liffe market claims the German community has "deliberately set about excluding knowhow from the market." A raft of rules and regulations make it extremely unattractive for such a broker to set up as a full DTB clearing member, leaving the field almost entirely to the big banks.

The London spokesperson says the DTB closely follows Soffex, the Swiss options exchange dominated by the three leading Swiss banks. He says DTB has not only adopted its software but has also taken some of its characteristics.

Soffex has not been a success in international terms, and while the market-making community of the DTB is more diverse than Soffex's, German participants have a surprising tendency to measure themselves against Soffex – rather than against, for example, London.

Potential international users say that Germany, far from apparently trying to exclude knowhow, should be throwing the door wide open to learn from the experience of other European derivative exchanges. Not that the foreigners are complaining.

American houses are boasting about the money they are making from German banks' mistakes, notably from a series of mispricings in the fixed income warrants market.

Some bankers say practices that appear to be accepted among DTB members may be putting off international clients. In several banks, traders operating for the house account sit at the same desk as brokers filling client orders.

This practice, at least in suspicious American or UK minds, could suggest the risk of the bank dealing ahead, and therefore to the disadvantage of the client.

Meanwhile, in terms of users, a large proportion of business is still between the banks as market-makers or as principals trading for their own account.

Only 16-25 per cent of the transactions are thought to originate from genuine-end investors.

For different reasons, neither retail nor institutional investors in Germany have really caught on yet. In spite of extensive marketing efforts by the big banks to attract retail customers, the legal situation has not been clarified.

Potential investors have to read and then sign screeds of text telling them how dangerous options are, and the bank officer then has to compile a full report detailing how the client was informed. This is hardly conducive to business.

From a tax point of view, it is more attractive for the private investor to buy some of the plethora of warrants that are being issued, because they can be held for more than six months and can then avoid capital gains tax.

Meanwhile, German investment funds, only some of which are now legally empowered to use options in their portfolio management, still have to alter articles and set up systems – a process unlikely to be completed before the end of the year.

Public fund are still waiting for legal power to buy options and futures. This is expected from November.

International investors, on the other hand, are focusing on the introduction of the 10-year bund, to be traded together with a future on the Dax index of 30 blue chip stocks from September 10.

Katharine Campbell

The insurance industry: a staunchly defended market

Vanguard against change

COMPARED WITH other financial services, insurance seems to be trailing in terms of progress on directives for implementation by the beginning of 1993.

German insurers and regulators, operating in Europe's biggest and most heavily-protected market, are not complaining about the delays.

Indeed, the progress that has been made has largely been accomplished in the face of fierce opposition on their part.

But it was with care that Sir Leon Brittan, EC competition commissioner, recently addressed a gathering of German insurers in Cologne on the subject of the commission's aims to extend the freedom-of-services concept in the insurance industry.

His careful phraseology underlined how unpopular he knew his message of free competition would be.

But in terms of concrete measures affecting near-term business prospects, Sir Leon's audience probably heard nothing to unduly alarm it.

The domestic firms, most notably Allianz, which derives about 40 per cent of its income from outside Germany, look set to do better out of the rest of Europe than the rest of Europe will do within Germany.

As far as commercial risk goes, the relevant directive must be adopted by member states into national law by the end of June, and Germany is likely to meet the deadline.

But it is changes in the fast-growing but staunchly defended life assurance market which are of most potential interest, at least to foreign players with an eye on the German savings honey pot.

The force of one directive in the field of life insurance may be considerably reduced and there is not even a draft version for a second directive yet.

The second life insurance directive, bitterly opposed by the Germans during its passage, is being held up by a technicality in the European Parliament.

Even when this is sorted out, however, the directive is not going to change business practices overnight.

Its basic thrust, the so-called "own initiative provision," is to permit the sale of foreign insurance policies to clients who specifically request them.

Theo Waigel: support for industry control

Although the number of German savers likely to know about a particular life product such as from a Scottish company for example, will not be great, many domestic insurers are distinctly mistrustful.

Some would like to totally ban brokers from selling foreign policies.

Brokers account for just a small part of the German market but are unsupervised. No qualification is required to sell public insurance policies in Germany.

German insurers are deeply mistrustful of any moves to introduce a single European passport

In response to pressure from German ministers, however, the EC has said that it will allow member states three years to introduce their own kind of broker regulation.

The idea of applying the European passport concept to the insurance industry is also on the programme but not yet in draft form.

Already embodied in the second banking directive, this would similarly allow insurance companies to sell across borders on the strength of the licence obtained from their home regulator without the need to establish branches in each country.

While Mr Theo Waigel, the West German Finance Minister, at a meeting in March with Mr Nicholas Ridley, the British Secretary for Trade and Industry, supported the basic principle of a single passport, he was clearly not speaking with the full support of the domestic insurance business.

German insurers and their regulators are deeply mistrustful of any such moves.

"Excessive regulation gets in the way of product innovation and choice," Sir Leon said in his Cologne speech.

Any foreign insurer who has tried to penetrate the German market, particularly in the life area, would heartily agree, as would an increasing number of German consumers.

While it may be difficult to quantify where customer protection leaves off and protection of the home industry sets in, other European players would be in no doubt as to which side of the fence the German supervisory authorities falls.

Rigorously standardised, every new twist to a policy has to be scrutinised by the regulators. Equally, firms with new products are expected to show their wares before competitors before their launch.

Before the single passport is introduced, there will no doubt be acrimonious discussion between member states as to how far the writ of the host, as opposed to the home, regulator extends.

This will be crucial in determining whether foreign insurers really get a fair crack at the German market.

Meanwhile, within the domestic market, one of the most important themes continues to be Allfinanz, or one-stop financial shopping.

Alliances between banks and insurers continue to be struck.

Deutsche Bank, the country's largest bank which set up its own life insurance unit last September, recently announced a joint venture with Gerling, which mainly insures industrial risk, in the field of life policies offered by companies to their staff.

While one of the prime motives cited for such partnerships has been the spectre of pan-European competition, the true rationale – given the EC changes are, at best, some distance off – has more to do with the banks' dwindling share of savings.

No-one expects this structural bias to change given the massive tax advantage conferred on the life business.

No matter how logical the tie-ups, the rewards may take years to shine through.

Nor is it clear which of the various models will prove the most successful.

Deutsche says it has sold a total of 64,000 life contracts worth DM3.7bn in the first eight months of operation.

But some of its competitors, which allege that Deutsche's business has considerably fallen off after a surge in the initial months, reckon that the concept of bank staff selling life insurance as an adjunct to the raft of banking services simply will not work.

They contend the life policy will get lost among all the other products when the novelty has worn off.

Other models have been based on links between banks and insurers, aiming to blend the bank branch network with the insurance companies' armies of commission-based full and part-time sales representatives.

One of the first of these was put in place by the big insurer Aachener & Münchener when it bought a majority stake in BfG, the West German reconstruction bank, then wholly-owned by the trade unions.

BfG had, and still has, its own problems, but, after three years, A&M appears to be beginning to make the alliance work.

Allianz, West Germany's biggest insurer, has a marketing pact with Dresdner, the number two German bank.

It covers five states only because Dresdner wanted to keep its distance and so linked with three other companies to cover the rest of the country.

The venture started as a product of Allianz's pique with Deutsche when that bank announced it was setting up its own life activities, thereby abruptly ending a long-standing and close relationship.

Other banks and insurers have agreements in place, and a number of foreign insurers say they would like to find a friendly German bank to distribute their products.

This might well prove their best method of entry given the difficulties Brussels is encountering opening up the market.

Katharine Campbell

Post-war minister: the late Mr Ludwig Erhard

THE BUNDESBANK

Independence compromised

THE RISKS and uncertainties of extending the D-Mark into East Germany are similar to the currency reforms of 1948.

When Mr Ludwig Erhard, Germany's post-war Economics Minister, introduced the D-Mark to war-torn West Germany, and so laid the foundations for the ensuing *Wirtschaftswunder*, every citizen received just DM40 in exchange for 40 units of the old imperial mark.

The extension of the world's second reserve currency into the precarious East German economy are just as great in their own way.

The Bundesbank, the West German central bank, is at the centre of this far-reaching change.

One of the laws prescribing the bank's powers says it "shall not be subject to instructions from the Federal Government." This independence has apparently been compromised in the rush for monetary union, at least in the eyes of the international financial community. This could be attributed to the bank largely being left out of important policy discussions in recent months.

Mr Bluford Putnam, chief economist at Kleinwort Benson in London, says this has dented the mark on the foreign exchange markets to an extent, but he argues, and "the only thing that is keeping the D-Mark from weakening a lot further is the threat of foreign exchange intervention."

Mr Putnam believes the first chance for the Bundesbank to reassert its independence will be via an interest rate hike in autumn – if circumstances allow higher short term rates by then.

Noises from within the central bank give support to the impression of policy conflicts.

Mr Wilhelm Nölling, a council member and president of the Hamburg central bank, recently said that Bonn had failed to consult the bank on monetary union. Mr Helmut Hesse, at the Lower Saxony central bank, added his voice to the debate with similar complaints.

At pains to present a united front, Bundesbank president Karl Otto Pöhl insists that the central bank has been fully involved and is "very satisfied" with the contents of the treaty of social and economic union with East Germany.

However, it is clear that Frankfurt has not been left unscathed in the political whirlwind that has swept Chancellor Helmut Kohl towards introduction of the D-Mark in the East from July 2.

From the start, the Bundesbank has quite clearly been opposed to rapid currency union. Even considering ensuing political imperatives, notably the flood of refugees still pouring westwards, it favoured at least slightly stricter terms than the Government imposed.

Just last month, however, it emerged that the central bank had again been largely ignored when details of the German Unity Fund were released.

As the two Germanys plunge into an unchartered economic waters, the Bundesbank faces its biggest challenge since its inception in 1957.

It probably wishes it was not fighting to bridge a credibility gap too. From July 2, the less-valued East German mark will be consigned to history. In exchange, wages, pensions, and a proportion of each citizen's savings will be converted into D-Mark at the generous rate of 1:1. Savings in excess of DM4,000 (DM6,000 for pensioners and DM2,000 for children) will be converted at 2:1, as will corporate debt.

The robust DM2,000bn West German economy, with its low inflation rate and hefty current account surplus, is well positioned to absorb the troubles expected during the transition. But the Bundesbank is still likely to be faced with painful decisions both on the inflation and the interest rate front.

Long before the terms of monetary union were known, nervous international investors, with their own suspicions about the cost of reunification, drove bond yields to eight-year highs. The average yield on German public bonds, 7.3 per cent before the Berlin wall was breached in November, climbed to 9.15 per cent in February.

As details continue to come out, some economists say yields could be 10 per cent by the end of the year.

Even Mr Theo Waigel, the West German Finance Minister, recently admitted that "only a soothsayer or a swindler can estimate the costs of German unity." With an eye on the end-of-year elections, the West German Government has pledged that its vast programme can be achieved without calling on the German taxpayer. Mr Pöhl has suggested a tax hike should not be ruled out.

Instead, Bonn announced the creation of the German Unity Fund to raise DM115bn in the next 4½ years – DM20bn from central budget savings, and the rest borrowed, in the fund's name but with a full government guarantee, in the capital markets. This could bring the pan-German public sector borrowing requirement to around DM100bn for 1990, still only 3.5 per cent of gross national product, but a very sharp increase above the just DM19bn raised from the markets last year.

The costs will not necessarily rest there.

Any number of economic factors could upset present sums, even ignoring the Social Democratic opposition attempts to alter the terms of the treaty.

To begin with, Bonn is counting on vastly-enhanced tax receipts on the strength of 4 per cent growth in the economy this year – including a 1 per cent supply and demand boost from East Germany – and 3.5 per cent for 1991.

On top of these home-grown uncertainties, adverse developments in the world economy could also throw these sums out.

The size of the East German budget deficit, currently at DM33bn, is another unknown factor. A leading West German economic institute recently forecast a 10 per cent slump in East Germany's gross national product for 1990, in the early months of the painful adjustment process.

Meanwhile, official funds are intended only as a modest catalyst to stimulate private capital flows to provide the bulk of the necessary long-term investment. A recent survey of German corporates, however, shows growing disillusionment with persistent legal uncertainties and bureaucratic tedium, with a significantly lower percentage of firms than in January expressing willingness to invest.

On the inflation front, the Bundesbank will closely watch spending of the newly won D-Mark. A massive consumption wave cannot be ruled out after years of deprivation of basic consumer goods, although the spectre of unemployment, lurking in most workplaces, could be a strong deterrent.

Mr Pöhl has said that he is less concerned about the inflationary push from the East than about developments in the West, notably signs of overheating in the domestic building sector. Even so, the Bundesbank has no easy task, operating without many of the basic tools of monetary policy on which it normally relies.

As Mr Hermann Remsperger, chief economist at BHF bank in Frankfurt points out, in accordance with the Bundesbank's normal techniques, "increases of the money supply should be geared to the growth in production potential. Unfortunately there are still no comparable figures available for East Germany."

He adds that some calculations of the "correct" money supply assume the same velocity of circulation of money as in the federal republic – when behaviour patterns are unknown.

The Bundesbank's performance in unchartered territory will be keenly watched, particularly given its push to become the European central bank.

Katharine Campbell

Equity markets are instigating change to increase turnover

Banks compete for a share

THE REGULAR turnover of a third of some leading German shares in London has been a sore point with German bankers for some time.

Insult was recently added to this injury when, just last month, the London trading system was proposed as the basis for a pan-European stock market.

Large banks dominate share trading in Germany and they want to retain that role.

International competition, and growing turnover on local exchanges, has given them the push that was needed to bring their exchanges up to date.

Eight exchanges operating under the federal structure divide share trading among them.

But this system has largely been surpassed by Frankfurt's emergence as the dominant market.

The markets will be transformed this time next year when a range of improvements to dealing systems is due for completion.

The banks' decision to act is summed up by Mr Gerhard Eberstadt, a member of the board of managing directors of Dresdner Bank: "We have been cautious in the past because of political reasons. But the time for caution is over.

"It's a matter of cost."

He says investors will use only the most cost-effective market.

"If you can buy Siemens shares at eight places in the world, four of them in Europe, you will only buy where you can do it in a cost-effective way."

Some work has already been carried out on centralising the equity market.

The country's five share depositories have been merged, as have the data processing functions of the two biggest markets, Frankfurt and Dusseldorf.

Most importantly, IBIS, an interbank share price information system is to be introduced into the Frankfurt exchange later this year. Many see this as the core of a future country-wide equity trading system.

Frankfurt's share of trading in German securities has risen to the point where it accounts for two thirds of turnover.

In comparison, Dusseldorf accounts for about 15 per cent. Some others have less than 1 per cent.

Half of Frankfurt's turnover is in equities.

Two years ago, 80 per cent of its turnover was dominated by bond business.

The regional markets are left with little option but to accept the role that Frankfurt is offering them.

What future does that leave for the other regional markets?

The answer from Frankfurt is that they have a job to do in bringing more companies to the stock market.

Although it leads the way, Frankfurt is belatedly overhauling itself in recognition of its central place in the German equity markets.

The 12 per cent fall in share prices in last October's mini-crash has generally been blamed on the failure of the order-routing system to bring orders to the market, undermining its price-making function.

By next spring, a new automated routing sytem called BOSS is expected be in place.

At the same time, the market's trade reporting and clearing and settlement systems will be electronically tied to the brokers' new automated order books.

This will link the process of a trade in a single electronic flow from beginning to end.

Settlement is already Frankfurt's biggest boast, with a two-day settlement period.

But work is also under way to improve this system.

Greater efficiency at the exchange should also help banks to run their back offices.

According to Mr Manfred Zass of Deutsche Girozentrale, the ratio of back office to front office staff is typically three to one in a German bank.

He says it will need to be brought down to nearer one-to-one to make the market internationally competitive.

Automating the existing auction is only part of the development.

A bigger step, likely to come later this year, will be when IBIS is taken into the exchange and developed into a full dealing system.

IBIS has already carved out a position for itself outside the three-hour stock exchange trading day – it was only two hours until January – but it accounts for only a fraction of total dealing at present.

The planned changes should enhance its role.

It will become a regulated market, under the wing of the exchange, rather than carrying what one banker calls "wild cat" prices.

Other changes include screen dealing which will cut out the use of telephones altogether, and the automatic matching, clearing and settlement of transactions.

Smaller traders fear that IBIS will benefit the big banks, which have the capital to dominate this screen-based quote system.

Whatever the reservations, however, nothing is likely to stop the full development of the system before the end of the year.

IBIS's weaknesses should not be overlooked.

There are doubts about its cost.

The Frankfurt exchange describes the system as a "rough and ready" answer which will have to be upgraded soon, if not replaced altogether.

Some quarters claim a rival system developed for brokers by Quotron is cheaper.

Meanwhile, as the dealing systems are improved, a very profitable niche is under threat.

This is the corner occupied by brokers at the heart of the auction system whose job it is to match buy and sell orders.

Their work will be made redundant in an electronic era.

Their 0.08 per cent commission may seem small, but given the market's soaring turnover, it is not surprising that the banks who use the market resent the huge earnings of these brokers.

There commission rates has already been reduced (to 0.06 per cent last month), and may disappear in time.

Some brokers are likely to survive these changes.

Others in the market who deal through them have the benefit of having their own involvement concealed, at least for a short period – a practice which gives some value to the brokers' position as intermediary.

Also, they are likely to remain the main position-takers in smaller stocks, supplying liquidity to the market.

In parallel with these changes, the Frankfurt exchange is changing its organisation and ownership in a development that will make it more comparable to its London and Paris counterparts.

On July 5, its governors are expected to approve the privatisation of the exchange.

By the end of this year, it should have been sold by the Frankfurt Chamber of Commerce to the exchange's members.

The split of ownership will be geared to the amount each member has paid to the exchange in the last five years, and the assets will be sold at book value, with no amount for goodwill.

The exchange says this will make it better able to finance the development of new services for the market.

"Five years ago, the management couldn't even acquire a typewriter," says Mr Werner Waldeck, the market's chief executive.

Now it is planning a range of systems developments and has a more commercial approach.

Selling prices, for instance, brought in DM2.4m last year, compared to DM200,000 two years ago – a small amount when compared to London, but a sign of the changes under way.

With these many changes still to be digested locally, it is not surprising that the Germans are unwilling at this stage to accept a European market based on London's SEAQ International.

It remains to be seen, however, whether these trading developments can create a system able to compete with SEAQi on international share deals.

Richard Waters

Frankfurt's share of trading in German securities accounts for two thirds of turnover

It remains to be seen whether the developments will compete with SEAQI